TBC BANK GROUP

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

31 December 2014

CONTENTS

Independent auditor's report

To the Shareholders and Management of JSC TBC Bank:

We have audited the accompanying consolidated financial statements of JSC TBC Bank and its subsidiaries, 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 years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

18 February 2015
Tbilisi, Georgia

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In thousands of GEL	Notes	31 December 2014	31 December 2013	31 December 2012
ASSETS				
Cash and cash equivalents	6	532,118	390,465	398,587
Due from other banks	7	33,704	1,708	29,542
Mandatory cash balances with the National Bank of Georgia	8	336,075	295,332	316,061
Loans and advances to customers	9	3,556,496	2,801,712	2,370,200
Investment securities available for sale	10	466,510	500,651	407,733
Investments in finance leases	12	50,907	35,613	26,377
Investment properties	15	76,216	83,383	34,305
Current income tax prepayment		251	6,202	10,135
Deferred income tax asset	33	383	-	-
Other financial assets	11	43,857	45,049	25,301
Other assets	13	77,775	65,075	67,354
Goodwill	16	2,726	2,726	2,726
Intangible assets	14	37,756	23,491	18,817
Premises and equipment	14	208,692	199,668	192,556
TOTAL ASSETS		**5,423,466**	**4,451,075**	**3,899,694**
LIABILITIES				
Due to credit institutions	17	749,285	565,806	627,123
Customer accounts	18	3,322,428	2,886,883	2,486,944
Other financial liabilities	21	41,346	24,850	19,462
Current income tax liability		12,433	-	-
Debt securities in issue	19	20,423	4,474	-
Deferred income tax liability	33	23,187	27,814	20,143
Provisions for liabilities and charges	20	11,898	12,380	6,174
Other liabilities	22	34,975	31,305	20,744
Subordinated debt	23	188,015	168,274	115,080
TOTAL LIABILITIES		**4,403,990**	**3,721,786**	**3,295,670**
EQUITY				
Share capital	24	19,576	16,499	16,143
Share premium	24	405,658	242,624	231,501
Retained earnings		532,992	402,627	298,880
Share based payment reserve	25	4,624	2,032	4,142
Other reserves	28	49,255	50,840	41,939
Net assets attributable to owners		**1,012,105**	**714,622**	**592,605**
Non-controlling interest	37	**7,371**	**14,667**	**11,419**
TOTAL EQUITY		**1,019,476**	**729,289**	**604,024**
TOTAL LIABILITIES AND EQUITY		**5,423,466**	**4,451,075**	**3,899,694**

Approved for issue and signed on 18 February 2015

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

In thousands of GEL	Notes	2014	2013	2012
Interest income	29	512,357	474,796	456,545
Interest expense	29	(173,709)	(192,146)	(217,895)
Net interest income		**338,648**	**282,650**	**238,650**
Fee and commission income	30	88,203	74,361	64,232
Fee and commission expense	30	(29,523)	(24,301)	(18,830)
Net fee and commission income		**58,680**	**50,060**	**45,402**
Gains less losses from trading in foreign currencies		39,730	37,894	25,240
Foreign exchange translation gains less losses /(losses less gains)		2,359	(5,901)	7,617
(Losses less gains)/gains less losses from derivative financial instruments		(683)	613	(3,804)
Other operating income	31	19,600	16,136	13,680
Other operating non-interest income		**61,006**	**48,742**	**42,733**
Provision for loan impairment	9	(48,672)	(32,971)	(23,154)
Provision for impairment of investments in finance lease	12	(77)	(98)	(42)
Recovery of/ (Provision for) performance guarantees and credit related commitments	20	902	(6,459)	(1,606)
Provision for impairment of other financial assets	11	(1,236)	(2,236)	(4,132)
Impairment of investment securities available for sale		(22)	(1,142)	(10)
Operating income after provisions for impairment		**409,229**	**338,546**	**297,841**
Staff costs		(122,835)	(108,613)	(92,289)
Depreciation and amortisation	14,15	(24,427)	(19,993)	(22,103)
Provision for liabilities and charges	20	(5,500)	(1,315)	(1,700)
Administrative and other operating expenses	32	(73,548)	(68,692)	(69,440)
Operating expenses		**(226,310)**	**(198,613)**	**(185,532)**
Profit before tax		**182,919**	**139,933**	**112,309**
Income tax expense	33	(24,468)	(15,663)	(14,498)
Profit for the year		**158,451**	**124,270**	**97,811**
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Revaluation of available-for-sale investments	10	(1,849)	7,923	682
Exchange differences on translation to presentation currency	28	2,095	1,233	(217)
Income tax recorded directly in other comprehensive income	33	(192)	(255)	(154)
Items that will not be reclassified to profit or loss:				
Revaluation of premises and equipment	28	-	-	10,513
Income tax recorded directly in other comprehensive income	33	-	-	(1,520)
Other comprehensive income for the year		**54**	**8,901**	**9,304**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**158,505**	**133,171**	**107,115**
Profit is attributable to:				
- Owners of the Bank		157,451	121,616	96,519
- Non-controlling interest		1,000	2,654	1,292
Profit for the year		**158,451**	**124,270**	**97,811**
Total comprehensive income is attributable to:				
- Owners of the Bank		157,505	130,517	105,823
- Non-controlling interest		1,000	2,654	1,292
Total comprehensive income for the year		**158,505**	**133,171**	**107,115**
Earnings per share for profit attributable to the owners of the Bank:				
- Basic earnings per share	26	3.4	3.0	2.5
- Diluted earnings per share	26	3.4	3.0	2.5

In thousands of GEL	Note	Net assets Attributable to owners: Share capital	Share premium	Share based payments reserve	Other reserves (note 28)	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012		**15,171**	**203,308**	**6,180**	**33,162**	**201,826**	**459,647**	**9,134**	**468,781**
Profit for the year		-	-	-	-	96,519	**96,519**	1,292	**97,811**
Other comprehensive income		-	-	-	9,304	-	**9,304**	-	**9,304**
Total comprehensive income for 2012		-	-	-	9,304	96,519	**105,823**	1,292	**107,115**
Share issue	24	815	23,612	-	-	-	**24,427**	-	**24,427**
Share based payment	25	-	-	2,700	-	-	**2,700**	-	**2,700**
Increase in share capital arising from share based payment		157	4,581	(4,738)	-	-	**-**	-	**-**
Equity contribution of owners of non-controlling shareholders			-	-				993	**993**
Transfer of revaluation surplus on premises to retained earnings		-	-	-	(527)	535	**8**	-	**8**
Balance at 31 December 2012		**16,143**	**231,501**	**4,142**	**41,939**	**298,880**	**592,605**	**11,419**	**604,024**
Profit for the year		-	-	-	-	121,616	**121,616**	2,654	**124,270**
Other comprehensive income		-	-	-	8,901	-	**8,901**	-	**8,901**
Total comprehensive income for 2013		**-**	-	**-**	**8,901**	**121,616**	**130,517**	**2,654**	**133,171**
Share issue	24	240	7,097		-	-	**7,337**	-	**7,337**
Share based payment	25	-	-	2,032	-	-	**2,032**	**-**	**2,032**
Increase in share capital arising from share based payment		116	4,026	(4,142)	-	-	**-**	-	**-**
Equity contribution of owners of non-controlling shareholders		-	-	-	-	-	**-**	594	**594**
Dividends paid		-	-	-	-	(17,869)	**(17,869)**	-	**(17,869)**
Balance at 31 December 2013		**16,499**	**242,624**	**2,032**	**50,840**	**402,627**	**714,622**	**14,667**	**729,289**
Profit for the year		**-**	**-**	**-**	**-**	**157,451**	**157,451**	**1,000**	**158,451**
Other comprehensive income		**-**	**-**	**-**	**54**	**-**	**54**	**-**	**54**
Total comprehensive income for 2014		**-**	**-**	**-**	**54**	**157,451**	**157,505**	1,000	**158,505**
Share issue	24	3,077	172,493	-	-	-	**175,570**	**-**	**175,570**
Share based payment	25	-	-	2,592	-	-	**2,592**	**-**	**2,592**
Transaction costs recognized directly in equity		-	(9,459)	-	-	-	**(9,459)**	**-**	**(9,459)**
Purchase of additional interest from minority shareholders		-	-	-	89	(2,627)	**(2,538)**	(8,296)	**(10,834)**
Dividends paid		-	-	-	-	(26,492)	**(26,492)**	**-**	**(26,492)**
Transfer of revaluation surplus to retained earnings		-	-	-	(1,728)	2,033	**305**	-	**305**
Balance at 31 December 2014		**19,576**	**405,658**	**4,624**	**49,255**	**532,992**	**1,012,105**	**7,371**	**1,019,476**

In thousands of GEL	Note	2014	2013	2012
Cash flows from operating activities				
Interest received		499,052	462,448	430,700
Interest paid		(182,572)	(192,482)	(200,303)
Fees and commissions received		95,295	74,823	64,232
Fees and commissions paid		(29,478)	(24,097)	(18,830)
Income received from trading in foreign currencies		39,730	37,894	25,240
Other operating income received		13,804	10,300	9,993
Staff costs paid		(116,481)	(102,115)	(89,589)
Administrative and other operating expenses paid		(74,703)	(66,849)	(66,465)
Income tax paid		(11,555)	(2,008)	(26,701)
Cash flows from operating activities before changes in operating assets and liabilities		**233,092**	**197,914**	**128,277**
Changes in operating assets and liabilities				
Net (increase) / decrease in due from other banks		(61,192)	61,275	(54,599)
Net increase in loans and advances to customers		(686,746)	(453,686)	(404,568)
Net increase in investment in finance lease		(11,889)	(9,334)	(4,398)
Net decrease / (increase) in other financial assets		593	(23,048)	(25,276)
Net decrease in other assets		11,056	22,471	26,402
Net increase / (decrease) in due to other banks		39,539	(30,334)	(34,013)
Net increase in customer accounts		336,631	297,393	474,948
Net increase in other financial liabilities		10,919	7,808	6,383
Net (decrease) / increase in other liabilities and provision for liabilities and charges		(5,187)	5,231	1,339
Net cash (used in) / from operating activities		**(133,184)**	**75,690**	**114,495**
Cash flows from investing activities				
Acquisition of investment securities available for sale	10	(845,665)	(755,433)	(813,864)
Proceeds from disposal of investment securities available for sale	10	51,369	61,626	90,857
Proceeds from redemption at maturity of investment securities available for sale	10	843,695	619,902	599,913
Acquisition of investment securities held to maturity		-	-	(5,000)
Proceeds from redemption of investment securities held to maturity		-	-	33,000
Acquisition of premises, equipment and intangible assets		(47,506)	(31,052)	(52,820)
Proceeds from disposal of investment property		15,452	18,316	14,296
Purchase of additional shares in subsidiaries		(10,923)	-	-
Net cash from / (used in) investing activities		**6,422**	**(86,641)**	**(133,618)**
Cash flows from financing activities				
Proceeds from other borrowed funds		370,124	159,856	321,160
Redemption of other borrowed funds		(252,693)	(213,057)	(286,695)
Proceeds from subordinated debt		6,000	45,763	-
Redemption of subordinated debt		-	-	(24,738)
Proceeds from debt securities in issue		19,334	4,474	-
Redemption of debt securities in issue		(4,474)	-	-
Dividends paid		(26,492)	(17,869)	-
Equity contribution of owners of non-controlling shareholders		-	594	993
Issue of ordinary shares		175,570	7,199	24,426
Transaction costs recognized directly in equity		(9,458)	-	-
Net cash from /(used in) financing activities		**277,911**	**(13,040)**	**35,146**
Effect of exchange rate changes on cash and cash equivalents		**(9,496)**	**15,869**	**8,411**
Net increase / (decrease) in cash and cash equivalents		**141,653**	**(8,122)**	**24,434**
Cash and cash equivalents at the beginning of the year	6	390,465	398,587	374,153
Cash and cash equivalents at the end of the year	6	**532,118**	**390,465**	**398,587**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for TBC Bank (the "Bank") and its subsidiaries (together referred to as the "Group" or "TBC Bank Group").

The Bank was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations.

In 2009 the Group issued new shares and since then it does not have an ultimate controlling party. At 31 December 2014, 2013 and 2012 shareholders structure is as follows:

	Note	% of ownership interest held as at 31 December		
Shareholders		**2014**	**2013**	**2012**
Bank of New York (Nominees), Limited	24	71%	-	-
TBC Holdings LTD		16%	19%	20%
Individuals		8%	9%	7%
Liquid Crystal International N.V. LLC		5%	7%	7%
International Finance Corporation		-	20%	20%
European Bank for Reconstruction and Development		-	20%	20%
Deutsche Investitions und Entwicklungsgesellschaft MBH		-	11%	12%
JPMorgan Chase Bank		-	5%	5%
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.		-	5%	5%
Ashmore Cayman SPC		-	4%	4%
Total		**100%**	**100%**	**100%**

Bank of New York is the nominal holder of the shares that have been listed on the London Stock Exchange following the IPO in June 2014

Principal activity. The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises ("SME"), retail and micro operations within Georgia. The Bank has operated under a general banking license issued by the National Bank of the Georgia ("NBG") since 20 January 1993.

The Bank has 13 (2013: 13; 2012: 13) branches and 46 (2013: 47; 2012: 45) service centres within Georgia. As at 31 December 2014, the Bank had 3,427 employees (2013: 2,893 employees; 2012: 2,705 employees).

The Bank is a parent of a group of companies (the "Group") incorporated in Georgia and Azerbaijan, primary business activities include providing banking, leasing, brokerage card processing services to corporate and individual customers. The list of companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

Registered address and place of business. The Bank's registered address and place of business is: 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

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

2 Summary of Significant Accounting Policies

Basis for preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises, available-for-sale financial assets, the initial recognition of financial instruments based on fair value and identifiable assets acquired and liabilities assumed in a business combination measured at their fair values at the acquisition date and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

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

The consolidated financial statements include the following principal subsidiaries:

	Ownership / voting % as of 31 December					
Subsidiary	**2014**	**2013**	**2012**	**Country**	**Year of incorporation or acquisition**	**Industry**
United Financial Corporation JSC	98.67%	93.32%	93.32%	Georgia	1997	Card processing
TBC Broker LLC	100%	100%	100%	Georgia	1999	Brokerage
TBC Leasing JSC	99.48%	89.53%	89.53%	Georgia	2003	Leasing
TBC Kredit LLC	75%	75%	75%	Azerbaijan	2008	Non-banking credit institution
Banking System Service Company LLC	100%	100%	100%	Georgia	2009	Information services
TBC Pay LLC	100%	100%	100%	Georgia	2009	Processing
Real Estate Management Fund JSC	100%	100%	100%	Georgia	2010	Real estate management
TBC Invest LLC	100%	100%	100%	Israel	2011	PR and marketing
Bank Constanta JSC	100%	84.69%	83.85%	Georgia	2011	Financial institution

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

2 Summary of Significant Accounting Policies (Continued)

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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

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

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

2 Summary of Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 40.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. Refer to Note 10.

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

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

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

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

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

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all 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. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

2 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the NBG, excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

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

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

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognized in Other Comprehensive Income ("OCI") until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from OCI to profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale.

A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and reclassified from OCI. Impairment losses on equity instruments are not reversed through profit or loss. 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 current period's profit or loss for the year.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions. The repurchase agreements are short-term in nature. Available-for-sale securities reclassified to repurchase receivables continue to be carried at fair value in accordance with accounting policies for these categories of assets.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

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

2 Summary of Significant Accounting Policies (Continued)

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

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of historical loss experience and the success of recovery of overdue amounts. Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

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

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

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Loans to customers in retail, SME and micro segments (see Note 27 for segment definitions) are written off at the earliest of (a) after being past due for more than 180 days or (b) being fully provided for more than 90 days. Loans issued to customers in the corporate segment are written off after being past due for more than 270 days, unless the management expects to recover the loan within short period of time after 270 days threshold. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

2 Summary of Significant Accounting Policies (Continued)

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

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

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value if the discounting effect is material.

The Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts. Such amounts are recognised as loans and receivables.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment, except for land, buildings and construction in progress, are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Following initial recognition, land, buildings and construction in progress are carried at revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed frequently enough to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

Any revaluation surplus is credited to the revaluation reserve for premises and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognized in profit or loss to the extent of the decrease previously charged. A revaluation deficit is recognized in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is recognized in other comprehensive income and reduces revaluation reserve for premises and equipment cumulated in equity.

Depreciation on revalued buildings is charged to profit or loss. Upon disposal of revalued property, any revaluation reserve relating to the particular asset being sold or retired is transferred to retained earnings.

2 Summary of Significant Accounting Policies (Continued)

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

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

Premises	30 – 100 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 8 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 10 years; and
Leasehold improvements	lesser of 7 years or the term of the underlying lease

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

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.

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

Land included in investment property is not depreciated. Depreciation on other items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 30 to 50 years. Residual values of investment properties are estimated to be nil.

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

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software and licenses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortised on a straight line basis over expected useful lives of two to fifteen years.

2 Summary of Significant Accounting Policies (Continued)

Finance lease receivables (Investment in finance lease). Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as investments in finance leases and carried at the present value of the future lease payments. Investments in finance leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investments in leases. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Receivables from terminated leases. The Company recognizes receivables from terminated contracts at the moment of lease contract termination. These receivables are recognized at amount comprising difference between fair value of repossessed assets and outstanding balance of net investment in finance lease. Receivables are accounted for at amortised cost less impairment

Prepayment for purchase of leasing assets. Prepayment for purchase of leasing assets comprise interest bearing advance payments made to purchase assets for transfer into leases. Such advances are accounted for at amortised cost less impairment. On commencement of the leases, advances towards lease contracts are transferred into net investment in finance lease.

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

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

Subordinated debt. Subordinated debt includes long-term non-derivative liabilities to international financial institutions and is carried at amortised cost. The repayment of subordinated debt ranks after all other creditors in case of liquidation and is included in "tier 2 capital" of the Bank.

Debt securities in issue*.* Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

2 Summary of Significant Accounting Policies (Continued)

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. The Group also enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

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

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

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

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

Uncertain tax positions. The Group's uncertain tax positions are reassessed by Management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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

2 Summary of Significant Accounting Policies (Continued)

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

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note.

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

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of Georgia Lari.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of respective territories that the Bank and its subsidiaries operate, at the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

2 Summary of Significant Accounting Policies (Continued)

When control over a foreign operation is lost, the exchange differences previously recognised in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2014 the closing rate of exchange used for translating foreign currency balances was USD 1 = 1.8636 (2013: USD 1 = GEL 1.7363; 2012: USD 1 = GEL 1.6567); EUR 1 = 2.2656 (2013: EUR 1 = GEL 2.3891; 2012: EUR 1 = GEL 2.1825).

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

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits as well as the cash settled part of the share based payment schemes are accrued in the year in which the associated services are rendered by the employees of the Group.

Earnings per share. Earnings per share ("EPS") are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Diluted earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. In calculating diluted EPS, non-vested ordinary shares are treated as outstanding on the grant date.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

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

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

Reclassifications. In order to achieve better and more useful presentation, the management has changed the presentation of a number of financial statement line items in 2014. The following reclassifications were made to 31 December 2013 and 31 December 2012 balances to conform to the 31 December 2014 presentation:

Period end	**Financial statement line item**	**As previously reported**	**As reclassified**	**Description**
31 December 2013	Fee and commission income	66,497	74,361	Revenues from cash-in terminal services and card processing previously presented under other operating income are presented in fee and commission income on settlement transactions and on card operations
	Other operating income	24,000	16,136	
31 December 2012	Fee and commission income	58,140	64,232	
	Other operating income	19,772	13,680	

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. In management judgment, at 31 December 2014, 2013 and 2012, there were no loans and advances at other than market conditions. Terms and conditions of related party balances are disclosed in Note 42.

Impairment losses on loans and advances and finance lease receivables. The Group regularly reviews its loan portfolio and finance lease receivables to assess impairment. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans or finance lease receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 7,488 thousand (2013: GEL 7,843 thousand; 2012: GEL 8,325 thousand) and additional charge for impairment of finance lease receivables of GEL 10 thousand (2013: GEL 9 thousand ; 2012: GEL 6 thousand), respectively.

Impairment provisions for individually significant loans and leases are based on the estimate of discounted future cash flows of the individual loans and leases taking into account repayments and realisation of any assets held as collateral against the loan or the lease. A 5% increase or decrease in the actual future discounted cash flows from individually significant loans which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for loan loss provision of GEL 2,081 thousand (2013: GEL 4,215 thousand; 2012: GEL 3,877 thousand), respectively. A 5% increase or decrease in the actual future discounted cash flows from individually significant leases which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for provision of GEL 2 thousand (2013:1 thousand ; 2012: 1 thousand), respectively.

***Fair value disclosure of investment properties*.** Investment properties held by the Group are carried at cost. However, as per the requirements of IAS 40, the Group also discloses the fair value of investment properties as at the reporting dates. Fair value is determined by internal appraisers of the group, who hold a recognised and relevant professional qualification. In determining the fair values of investment properties, three market comparatives are identified. As comparatives are usually somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined are then multiplied by the area of the valued property to arrive at the appraised value of the investment property. At 31 December 2014, investment properties comprised real estate assets located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 79,056 thousand (2013: GEL 86,480 thousand; 2012: GEL 45,041 thousand).

Tax legislation. Georgian and Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 36.

4 Adoption of New or Revised Standards and Interpretations

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

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

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

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

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

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

5 New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

5 New Accounting Pronouncements (Continued)

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

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

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

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

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

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

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

The amendments are not expected to have material impact on the Group's financial statements.

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

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

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

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

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

The amendments are not expected to have material impact on the Group's financial statements.

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

5 New Accounting Pronouncements (Continued)

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amended is not expected to have any material impact on the Group's financial statements.

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

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

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufact uring. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amended is not expected to have any material impact on the Group's financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amended is not expected to have any material impact on the Group's financial statements.

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

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

5 New Accounting Pronouncements (Continued)

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The amended is not expected to have any material impact on the Group's financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The amended is not expected to have any material impact on the Group's financial statements.

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

6 Cash and Cash Equivalents

In thousands of GEL	**2014**	**2013**	**2012**
Cash on hand	202,384	165,385	139,362
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	138,396	61,407	71,707
Correspondent accounts and overnight placements with other banks	100,305	79,643	163,869
Placements with and receivables from other banks with original maturities of less than three months	91,033	84,030	23,649
Total cash and cash equivalents	**532,118**	**390,465**	**398,587**

92% of correspondent accounts and overnight placements with other banks are placed with OECD banking institutions (31 December 2013: 93%; 31 December 2012: 98%).
As at 31 December 2014 GEL 91,033 thousand was placed on interbank term deposits with five non-OECD banks (31 December 2013: 84,030 thousand with four non-OECD banks; 31 December 2012: 23,649 thousand with eight non-OECD banks).

Interest rate analysis of cash and cash equivalents is disclosed in Note 34.

6 Cash and Cash Equivalents

Credit rating of correspondent accounts and overnight placements with other banks is as follows:

In thousands of GEL	2014	2013	2012
A+	48,873	58,192	62,137
A	42,452	14,904	94,792
BBB	329	1,844	764
BBB-	-	-	11
BB+	401	-	-
BB	-	-	3,591
BB-	4,151	262	-
B+	-	-	511
B	168	570	-
B-	-	1,170	277
Not rated	3,931	2,701	1,786
Total	**100,305**	**79,643**	**163,869**

Credit rating of placements with and receivables from other banks with original maturities of less than three months is as follows:

In thousands of GEL	2014	2013	2012
BB+	-	70,042	16,369
BB	89,165	-	-
BB-	1,868	-	-
Not rated	-	13,988	7,280
Total	**91,033**	**84,030**	**23,649**

The table contains ratings of Standard & Poor's and Fitch Ratings international agencies. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used.

7 Due from Other Banks

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired amounts at the end of 2014, 2013 and 2012.

Credit rating of placements with other banks with original maturities of more than three months is as follows:

In thousands of GEL	2014	2013	2012
A	3,839	-	-
BBB+	56	-	-
BB+	15,924	-	-
B	5,970	-	-
Not rated	7,915	1,708	29,542
Total	**33,704**	**1,708**	**29,542**

At 31 December 2014 the Group had placements with original maturities of more than three months with three counterparty banks with aggregated amounts above GEL 5,000 thousand (2013: nil; 2012: 1 bank). The total aggregate amount of these placements was GEL 29,179 thousand (2013: nil; 2012: 28,164 thousand) or 87% of the total amount due from other banks (2013: nil; 2012:95.3%).

As of 31 December 2014 GEL 4,525 thousand, (2013: GEL 1,615 thousand; 2012 GEL 1,213 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks. Refer to Note 40 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 34.

8 Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia (“NBG”) represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 2% annual interest on the mandatory reserve with the NBG in 2014, 2013 and 2012.

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

9 Loans and Advances to Customers

In thousands of GEL	2014	2013	2012
Corporate loans	1,231,729	1,157,334	1,142,087
Consumer loans	781,043	603,434	482,704
Mortgage loans	716,868	499,428	385,416
Loans to small and medium enterprises	533,919	392,446	294,217
Micro loans	273,699	201,287	145,931
Others	169,002	104,652	86,343
Total loans and advances to customers (before impairment)	**3,706,260**	**2,958,581**	**2,536,698**
Less: Provision for loan impairment	(149,764)	(156,869)	(166,498)
Total loans and advances to customers	**3,556,496**	**2,801,712**	**2,370,200**

Included in the consumer loans are consumer loans, card loans, overdrafts, express and fast loans and other loans.

9 Loans and Advances to Customers (Continued)

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

In thousands of GEL	Corporate loans	Consumer loans	Mortg-age loans	Small and medium enterprises	Micro loans	Other	Total
Provision for loan impairment at 1 January 2014	**107,666**	**31,704**	**8,292**	**4,315**	**4,892**	**-**	**156,869**
Total provision for impairment during the year:	29,461	26,886	3,323	4,173	8,263	36	**72,142**
Provision for impairment charged to income statement during the year	18,995	20,362	1,666	1,625	6,006	18	48,672
Recoveries of loans previously written off	10,466	6,524	1,657	2,548	2,257	18	23,470
Amounts written off during the year as uncollectible	(45,901)	(21,837)	(2,726)	(3,200)	(5,547)	(36)	**(79,247)**
Provision for loan impairment at 31 December 2014	**91,226**	**36,753**	**8,889**	**5,288**	**7,608**	**-**	**149,764**

Loans and advances to customers written off in 2014 included loans to customers in the gross amount of GEL 7,142 thousand issued during 2014, a previously issued performance guarantee of GEL 4,823 thousand which was transformed into loan in 2014 and GEL 67,282 thousand issued in prior years.

Included in the amounts written off during the period as uncollectible is the provision of GEL 20,154 thousand for a corporate loan part of which was recovered in June 2014 through repossession of financial instruments amounting to GEL 3,014 thousand which are accounted for under investment securities available for sale.

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

In thousands of GEL	Corpo-rate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Total
Provision for loan impairment at 1 January 2013	**112,975**	**31,156**	**13,186**	**4,820**	**4,361**	**166,498**
Total provision for/(recovery of) impairment during the year:	21,203	22,789	(2,316)	1,846	4,234	**47,756**
Provision for/(recovery of) impairment charged to income statement during the year	17,035	18,029	(4,652)	88	2,471	32,971
Recoveries of loans previously written off	4,168	4,760	2,336	1,758	1,763	14,785
Amounts written off during the year as uncollectible	(26,512)	(22,241)	(2,578)	(2,351)	(3,703)	**(57,385)**
Provision for loan impairment at 31 December 2013	**107,666**	**31,704**	**8,292**	**4,315**	**4,892**	**156,869**

Loans and advances to customers written off in 2013 included loans to customers in the gross amount of GEL 7,387 thousand issued during 2013 and GEL 49,998 thousand issued in prior years.

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2012 are as follows:

In thousands of GEL	Corpo-rate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Total
Provision for loan impairment at 1 January 2012	**114,106**	**25,833**	**12,661**	**5,459**	**601**	**158,660**
Total provision for impairment during the year:	10,993	22,040	2,541	2,571	5,056	**43,201**
Provision for impairment charged to income statement during the year	1,190	15,649	649	1,198	4,468	23,154
Recoveries of loans previously written off	9,803	6,391	1,892	1,373	588	20,047
Amounts written off during the year as uncollectible	(12,124)	(16,717)	(2,016)	(3,210)	(1,296)	**(35,363)**
Provision for loan impairment at 31 December 2012	**112,975**	**31,156**	**13,186**	**4,820**	**4,361**	**166,498**

Loans and advances to customers written off in 2012 included loans to customers in the gross amount of GEL 1,613 thousand issued during 2012 and GEL 33,750 thousand issued in prior years.

For terms of loans and advances to related parties, impairment provisions made against those loans and amounts written off during the year refer to Note 42.

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

	2014		2013		2012	
In thousands of GEL	Amount	%	Amount	%	Amount	%
Individual	1,497,911	40%	1,102,862	37%	868,120	34%
Service	575,525	15%	539,825	18%	487,938	19%
Agriculture	265,562	7%	164,441	6%	119,935	5%
Energy	216,500	6%	106,083	4%	79,929	3%
Consumer goods and automobile trading	175,681	5%	130,152	4%	132,579	5%
Pawn shop	169,002	5%	104,652	4%	86,343	4%
Real estate	165,937	4%	132,321	5%	149,328	6%
Food industry	141,283	4%	158,865	5%	109,031	4%
Oil and gas	102,912	3%	121,921	4%	143,355	6%
Construction	95,111	3%	101,879	3%	108,914	4%
Communication	94,309	2%	102,547	4%	82,360	3%
Transportation	64,720	2%	67,223	2%	70,453	3%
Manufacturing	42,086	1%	33,609	1%	30,073	1%
Mining	29,952	1%	40,346	1%	31,140	1%
Other	69,769	2%	51,855	2%	37,200	2%
Total loans and advances to customers (before impairment)	**3,706,260**	**100%**	**2,958,581**	**100%**	**2,536,698**	**100%**

Service sector contains loans disbursed to consumer service, healthcare, media and financial service industries.

At 31 December 2014 the Group had 71 borrowers (2013: 62 borrower; 2012: 61 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 1,031,720 thousand (2013: GEL 910,248 thousand; 2012: GEL 879,619 thousand) or 27.8% of the gross loan portfolio (2013: 31%; 2012: 35%).

9 Loans and Advances to Customers (Continued)

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

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
- Borrowers with credit history over two years	784,212	415,328	470,873	248,251	106,930	110,731	**2,136,325**
- New borrowers	290,596	323,911	235,411	267,137	154,407	56,316	**1,327,778**
Total neither past due nor impaired	**1,074,808**	**739,239**	**706,284**	**515,388**	**261,337**	**167,047**	**3,464,103**
Past due but not impaired							
- 1 to 30 days overdue	229	13,281	3,165	5,156	3,345	1,151	**26,327**
- 31 to 90 days overdue	2,377	201	40	288	151	503	**3,560**
- 91 to 180 days overdue	-	3	-	-	56	107	**166**
- 181 to 360 days overdue	-	8	-	-	-	88	**96**
- more than 360 days overdue	-	6	-	-	-	106	**112**
Total past due but not impaired	**2,606**	**13,499**	**3,205**	**5,444**	**3,552**	**1,955**	**30,261**
Individually assessed impaired loans (gross)							
- not overdue	124,483	-	-	2,506	-	-	**126,989**
- 1 to 30 days overdue	18,270	-	-	-	-	-	**18,270**
- 31 to 90 days overdue	4,227	-	-	-	-	-	**4,227**
- 91 to 180 days overdue	325	-	-	-	-	-	**325**
Total individually assessed impaired loans	**147,305**	**-**	**-**	**2,506**	**-**	**-**	**149,811**
Collectively assessed impaired loans (gross)							
- not overdue	6,783	9,267	2,089	1,119	3,383	-	**22,641**
- 1 to 30 days overdue	4	1,020	113	68	1,670	-	**2,875**
- 31 to 90 days overdue	207	7,445	2,912	4,942	1,861	-	**17,367**
- 91 to 180 days overdue	16	7,641	2,022	2,771	1,625	-	**14,075**
- 181 to 360 days overdue	-	2,189	243	1,309	268	-	**4,009**
- more than 360 days overdue	-	743	-	372	3	-	**1,118**
Total collectively assessed impaired loans	**7,010**	**28,305**	**7,379**	**10,581**	**8,810**	**-**	**62,085**
Total loans and advances to customers (before impairment)	**1,231,729**	**781,043**	**716,868**	**533,919**	**273,699**	**169,002**	**3,706,260**
Total provision	**(91,226)**	**(36,753)**	**(8,889)**	**(5,288)**	**(7,608)**	**-**	**(149,764)**
Total loans and advances to customers	**1,140,503**	**744,290**	**707,979**	**528,631**	**266,091**	**169,002**	**3,556,496**

9 Loans and Advances to Customers (Continued)

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

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
- Borrowers with credit history over two years	619,783	285,199	335,855	179,036	70,208	9,509	**1,499,590**
- New borrowers	342,499	284,794	152,859	198,371	124,258	92,141	**1,194,922**
Total neither past due nor impaired	**962,282**	**569,993**	**488,714**	**377,407**	**194,466**	**101,650**	**2,694,512**
Past due but not impaired							
- 1 to 30 days overdue	1,012	11,973	3,735	5,287	1,827	1,440	**25,274**
- 31 to 90 days overdue	409	58	11	635	-	1,136	**2,249**
- 91 to 180 days overdue	2,786	13	-	-	-	77	**2,876**
- 181 to 360 days overdue	-	-	-	-	-	78	**78**
- more than 360 days overdue	-	-	-	-	-	271	**271**
Total past due but not impaired	**4,207**	**12,044**	**3,746**	**5,922**	**1,827**	**3,002**	**30,748**
Individually assessed impaired loans (gross)							
- not overdue	175,635	-	-	2,335	-	-	**177,970**
- 31 to 90 days overdue	357	-	-	-	-	-	**357**
- 91 to 180 days overdue	4,303	-	-	-	-	-	**4,303**
- 181 to 360 days overdue	6,040	-	-	-	-	-	**6,040**
Total individually assessed impaired loans	**186,335**	**-**	**-**	**2,335**	**-**	**-**	**188,670**
Collectively assessed impaired loans (gross)							
- not overdue	2,727	2,145	2,191	2,075	1,349	-	**10,487**
- 1 to 30 days overdue	-	776	485	131	454	-	**1,846**
- 31 to 90 days overdue	-	8,794	2,624	1,184	1,669	-	**14,271**
- 91 to 180 days overdue	295	7,014	1,234	1,702	1,328	-	**11,573**
- 181 to 360 days overdue	1,488	2,259	434	1,529	14	-	**5,724**
- more than 360 days overdue	-	409	-	161	180	-	**750**
Total collectively assessed impaired loans	**4,510**	**21,397**	**6,968**	**6,782**	**4,994**	**-**	**44,651**
Total loans and advances to customers (before impairment)	**1,157,334**	**603,434**	**499,428**	**392,446**	**201,287**	**104,652**	**2,958,581**
Total provision	**(107,666)**	**(31,704)**	**(8,292)**	**(4,315)**	**(4,892)**	**-**	**(156,869)**
Total loans and advances to customers	**1,049,668**	**571,730**	**491,136**	**388,131**	**196,395**	**104,652**	**2,801,712**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

In thousands of GEL	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Small and medium enterprises**	**Micro loans**	**Others**	**Total**
Neither past due nor impaired							
- Borrowers with credit history over two years	583,682	214,312	236,243	120,317	672	4,134	**1,159,360**
- New borrowers	354,076	237,939	128,516	162,895	137,690	82,209	**1,103,325**
Total neither past due nor impaired	**937,758**	**452,251**	**364,759**	**283,212**	**138,362**	**86,343**	**2,262,685**
Past due but not impaired							
- 1 to 30 days overdue	4,251	8,945	4,590	2,051	930	-	**20,767**
- 31 to 90 days overdue	414	4,469	3,048	430	-	-	**8,361**
- 91 to 180 days overdue	123	27	-	10	-	-	**160**
- 181 to 360 days overdue	6	-	-	-	-	-	**6**
Total past due but not impaired	**4,794**	**13,441**	**7,638**	**2,491**	**930**	**-**	**29,294**
Individually assessed impaired loans (gross)							
- not overdue	173,965	-	-	-	-	-	**173,965**
- 31 to 90 days overdue	13,377	-	-	-	-	-	**13,377**
- 91 to 180 days overdue	3,334	-	-	-	-	-	**3,334**
- 181 to 360 days overdue	4,115	-	-	-	-	-	**4,115**
Total individually assessed impaired loans	**194,791**	**-**	**-**	**-**	**-**	**-**	**194,791**
Collectively assessed impaired loans (gross)							
- not overdue	2,811	3,177	8,407	4,904	1,753	-	**21,052**
- 1 to 30 days overdue	1,134	600	232	94	104	-	**2,164**
- 31 to 90 days overdue	-	2,968	623	2,126	2,335	-	**8,052**
- 91 to 180 days overdue	35	6,665	2,401	510	2,447	-	**12,058**
- 181 to 360 days overdue	764	3,128	1,356	590	-	-	**5,838**
- more than 360 days overdue	-	474	-	290	-	-	**764**
Total collectively assessed impaired loans	**4,744**	**17,012**	**13,019**	**8,514**	**6,639**	**-**	**49,928**
Total loans and advances to customers (before impairment)	**1,142,087**	**482,704**	**385,416**	**294,217**	**145,931**	**86,343**	**2,536,698**
Total provision	**(112,975)**	**(31,156)**	**(13,186)**	**(4,820)**	**(4,361)**	**-**	**(166,498)**
Total loans and advances to customers	**1,029,112**	**451,548**	**372,230**	**289,397**	**141,570**	**86,343**	**2,370,200**

The retail segment in Note 27 includes the following classes from above tables: consumer, mortgage and other. Included in other are primarily pawn shop loans secured with precious metals.

9 Loans and Advances to Customers (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period.

The tables above show analysis of loan portfolio based on credit quality. The Group's policy for credit risk management purposes is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The primary factors by which the Group considers a loan as impaired are: overdue status of loan, financial position of a borrower and fair value of related collateral. The Group conducts impairment analysis of each individual loan on a quarterly basis.

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

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are the following:

- Real estate properties,
- inventory and equipment,
- cash covers,
- third party guarantees.

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

The effect of collateral at 31 December 2014:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	943,782	2,366,233	287,947	97,485
Consumer loans	496,838	1,129,883	284,205	15,843
Mortgage loans	690,576	1,683,436	26,292	9,011
Loans to small and medium enterprises	509,732	1,502,898	24,187	9,527
Micro loans	134,707	264,571	138,992	3,584
Others	163,960	189,920	5,042	4,883
Total	**2,939,595**	**7,136,941**	**766,665**	**140,333**

The effect of collateral at 31 December 2013:

	Over-collateralised Assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	745,948	1,819,917	411,386	321,064
Consumer loans	404,098	955,249	199,336	6,054
Mortgage loans	476,713	1,182,387	22,715	6,531
Loans to small and medium enterprises	369,125	1,104,910	23,321	7,567
Micro loans	93,632	189,155	107,655	1,189
Others	99,637	115,216	5,015	4,752
Total	**2,189,153**	**5,366,834**	**769,428**	**347,157**

9 Loans and Advances to Customers (Continued)

The effect of collateral at 31 December 2012:

	Over-collateralised Assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	774,701	1,873,588	367,386	203,772
Consumer loans	300,655	744,061	182,049	6,555
Mortgage loans	363,332	999,838	22,084	6,705
Loans to small and medium enterprises	271,350	789,728	22,867	6,256
Micro loans	57,368	124,177	88,563	775
Others	81,758	81,990	4,585	4,412
Total	**1,849,164**	**4,613,382**	**687,534**	**228,475**

The effect of collateral is determined by comparison of fair value of collateral to gross loans and advances outstanding at the reporting date.

The Group's internal appraiser performed physical inspection of pledged real estate and estimated the fair value of real estate at the balance sheet date using primarily market comparison method. Fair value of inventory, equipment and other assets was determined by the Group's credit department using the Group's internal guidelines.

Refer to Note 40 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 34. Information on related party balances is disclosed in Note 42.

10 Investment Securities Available for Sale

In thousands of GEL	**2014**	**2013**	**2012**
Georgian Government notes	232,934	173,974	196,004
Certificates of Deposit of the National Bank of Georgia	198,233	321,140	187,551
Corporate bonds	25,034	-	-
Ministry of Finance of Georgia Treasury Bills	476	-	19,210
Total debt securities	**456,677**	**495,114**	**402,765**
Corporate shares – quoted (VISA Inc)	6,140	4,858	3,156
Corporate shares – unquoted	3,693	679	1,812
Total investment securities available for sale	**466,510**	**500,651**	**407,733**

Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale. Therefore, these investments are carried at cost of GEL 3,693 thousand (2013: GEL 679 thousand; 2012: GEL 1,812 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.

At 31 December 2014 investment securities available for sale carried at GEL 173,239 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2013: GEL 84,086 thousand; 2012: GEL 54,800 thousand). Refer to Note 17.

None of the debt securities available for sale are overdue or impaired.

At 31 December 2014 the principal equity investment securities available for sale are:

Name	**Nature of business**	**Country of registration**	**Carrying value at 31 December**		
			2014	**2013**	**2012**
Visa Inc.	Card Processing	USA	6,140	4,858	3,156
LTD Caucasus Online	Telecommunication	Georgia	3,014	-	-
JSC GRDC	Property development	Netherlands Antilles	365	365	1,502
Other			314	314	310
Total			**9,833**	**5,537**	**4,968**

10 Investment Securities Available for Sale (Continued)

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

In thousands of GEL	Note	2014	2013	2012
Carrying amount at 1 January		**500,651**	**407,733**	**266,436**
Purchases		848,679	755,433	813,864
Disposals		(51,369)	(61,626)	(90,857)
Redemption at maturity		(843,695)	(619,902)	(599,913)
Revaluation	28	(1,849)	7,923	682
Interest income accrued	29	30,361	30,442	27,211
Interest income received		(16,246)	(18,210)	(9,680)
Impairment related to investment in equity security		(22)	(1,142)	(10)
Carrying amount at 31 December		**466,510**	**500,651**	**407,733**

11 Other Financial Assets

In thousands of GEL	2014	2013	2012
Prepayments for purchase of leasing assets	13,032	13,516	6,859
Receivables on guarantees	11,728	11,660	10,890
Receivables on credit card services and money transfers	9,440	6,557	3,349
Receivable on terminated leases	3,323	2,249	4,345
Other	10,564	14,147	6,743
Less: Provision for impairment	(4,230)	(3,080)	(6,885)
Total other financial assets	**43,857**	**45,049**	**25,301**

Movements in the provision for impairment of other financial assets during 2014 are as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment at 1 January 2014	**2,054**	**1,026**	**3,080**
Provision for impairment during the year	533	703	**1,236**
Amounts written off during the year as uncollectible	(14)	(409)	**(423)**
Recovery of amounts previously written off	-	337	**337**
Provision for impairment at 31 December 2014	**2,573**	**1,657**	**4,230**

Movements in the provision for impairment of other financial assets during 2013 are as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment at 1 January 2013	**3,887**	**2,998**	**6,885**
Provision for impairment during the year	236	2,000	**2,236**
Amounts written off during the year as uncollectible	(2,069)	(4,022)	**(6,091)**
Recovery of amounts previously written off	-	50	**50**
Provision for impairment at 31 December 2013	**2,054**	**1,026**	**3,080**

11 Other Financial Assets (Continued)

Movements in the provision for impairment of other financial assets during 2012 are as follows:

In thousands of GEL	**Receivables on terminated leases**	**Other**	**Total**
Provision for impairment at 1 January 2012	**3,966**	**-**	**3,966**
Provision for impairment during the year	579	3,553	**4,132**
Amounts written off during the year as uncollectible	(658)	(736)	**(1,394)**
Recovery of amounts previously written off	-	181	**181**
Provision for impairment at 31 December 2012	**3,887**	**2,998**	**6,885**

Analysis by credit quality of other financial receivables is as follows:

In thousands of GEL	**2014**	**2013**	**2012**
Neither past due nor impairment			
- Prepayments for purchase of leasing assets	13,032	13,516	6,859
- Receivables on credit card services and money transfers	9,440	6,557	3,349
- Receivables on guarantees	836	880	1,084
- Other	8,763	11,830	3,873
Total neither past due nor impaired	**32,071**	**32,783**	**15,165**
Past due but not impaired			
- Receivables on guarantees			
- more than 90 days overdue	10,892	10,780	9,806
Total past due but not impaired	**10,892**	**10,780**	**9,806**
Receivables individually determined to be impaired (gross)			
- Receivables on terminated leases	**3,323**	**2,249**	**4,345**
- less than 90 days overdue	-	-	175
- more than 90 days overdue	3,323	2,249	4,170
- Other receivables	**1,801**	**2,317**	**2,870**
- less than 90 days overdue	-	504	2,870
- more than 90 days overdue	1,801	1,813	-
Total individually impaired (gross)	**5,124**	**4,566**	**7,215**
Less impairment provision	**(4,230)**	**(3,080)**	**(6,885)**
Total other financial assets	**43,857**	**45,049**	**25,301**

Receivables individually determined to be impaired include receivables on terminated leases and other receivables for which impairment provision was assessed individually. The primary factors by which the Group considers a receivable as impaired is overdue status. Receivables on terminated leases are under-collateralised, estimated fair value of collateral on these equals GEL 808 thousand (2013: GEL 95 thousand; 2012: GEL 472 thousand). The remaining assets are not collateralized.

12 Investments in Finance Lease

Investments in finance lease of GEL 50,907 thousand (2013: GEL 35,613 thousand; 2012: GEL 26,377 thousand) are represented by leases of equipment.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of GEL	Due in 1 year	Due between 2 and 5 years	Total
Finance lease payments receivable at 31 December 2014	36,414	27,662	**64,076**
Unearned finance income	(8,380)	(4,594)	**(12,974)**
Impairment loss provision	(126)	(69)	**(195)**
Present value of lease payments receivable at 31 December 2014	**27,908**	**22,999**	**50,907**
Finance lease payments receivable at 31 December 2013	**24,775**	**20,592**	**45,367**
Unearned finance income	(5,941)	(3,636)	**(9,577)**
Impairment loss provision	(110)	(67)	**(177)**
Present value of lease payments receivable at 31 December 2013	**18,724**	**16,889**	**35,613**
Finance lease payments receivable at 31 December 2012	**18,616**	**15,418**	**34,034**
Unearned finance income	(4,629)	(2,914)	**(7,543)**
Impairment loss provision	(71)	(43)	**(114)**
Present value of lease payments receivable at 31 December 2012	**13,916**	**12,461**	**26,377**

At 31 December 2014 the estimated fair value of financial lease receivables was GEL 50,907 thousand (2013: GEL 35,613 thousand; 2012: GEL 26,377 thousand). Refer to Note 40.

Movements in the provision for impairment of net investment in finance lease are as follows:

In thousands of GEL	31 December 2014	31 December 2013	31 December 2012
Provision for impairment at the beginning of the year	**177**	**114**	**108**
Provision for impairment during the year	77	98	42
Amounts written off during the year as uncollectible	(59)	(35)	(27)
Transfer from receivable from terminated leases	-	-	(9)
Provision for impairment at the end of the year	**195**	**177**	**114**

12 Investments in Finance Lease (Continued)

Analysis by credit quality of net investment in finance lease is as follows:

In thousands of GEL	31 December 2014	31 December 2013	31 December 2012
Neither past due nor impaired			
- Customers with more than two year experience	9,570	8,750	7,044
- New customers	30,442	19,854	15,365
Total neither past due nor impaired	**40,012**	**28,604**	**22,409**
Past due but not impaired			
- Less than 30 days overdue	6,213	3,261	872
- 31 to 90 days overdue	1,479	-	-
- 91 to 180 days overdue	424	-	-
- 180 days to 360 days overdue	67	-	6
Total past due but not impaired	**8,183**	**3,261**	**878**
Individually impaired			
- Not overdue	1,926	2,419	2,686
- 1 to 30 days overdue	568	603	385
- 31 days to 90 days overdue	75	59	133
- From 91 to 180 days	197	583	-
- From 181 to 360 days	-	251	-
- More than 360 days	141	10	-
Individually impaired gross	**2,907**	**3,925**	**3,204**
Total investment in finance lease- gross	**51,102**	**35,790**	**26,491**
Impairment loss provision	(195)	(177)	(114)
Total net investment in finance lease	**50,907**	**35,613**	**26,377**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual lease by the reporting date. The Group's policy is to classify each lease as "neither past due nor impaired" until specific objective evidence of impairment of the lease is identified. The primary factors that the Group considers whether a lease is impaired are deterioration of financial position of lessee, its overdue status and realisability of the leased asset.

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are the following:

- Leased assets (inventory and equipment)
- Down payment
- Real estate properties,
- Third party guarantees.

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

12 Investments in Finance Lease (Continued)

The effect of collateral at 31 December 2014:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	45,608	79,134	5,494	3,616
Total	**45,608**	**79,134**	**5,494**	**3,616**

The effect of collateral at 31 December 2013:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	32,280	62,169	3,510	3,229
Total	**32,280**	**62,169**	**3,510**	**3,229**

The effect of collateral at 31 December 2012:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	24,670	51,590	1,821	221
Total	**24,670**	**51,590**	**1,821**	**221**

13 Other Assets

In thousands of GEL	**2014**	**2013**	**2012**
Current other assets			
Inventories of repossessed collateral	60,480	49,920	56,316
Prepayments for other assets	3,724	3,006	3,401
Other inventories	2,961	3,130	3,383
Prepaid taxes other than income tax	1,718	402	528
Total current other assets	**68,883**	**56,458**	**63,628**
Non-current other assets			
Assets repossessed from terminated leases	3,797	1,752	1,852
Prepayments for construction in progress	2,078	5,016	905
Prepaid insurance of leasing assets	609	482	347
Assets purchased for leasing purposes	545	-	413
Other	1,863	1,367	209
Total non-current other assets	**8,892**	**8,617**	**3,726**
Total other assets	**77,775**	**65,075**	**67,354**

Inventories of repossessed collateral represents real estate assets and equipment acquired by the Group in settlement of overdue loans, other than those classified as investment property or premises and equipment. The Group expects to dispose of the assets in the foreseeable future. Such assets are initially recognised at fair value and subsequently measured at lower of cost and net realisable value.

With respect to certain inventories of repossessed collaterals, the Group has granted the previous owners a right to repurchase the inventories at prices equal to or higher than the carrying value of the loan at the date of repossession. This right is usually effective for a period of 6 to 12 months from the date of repossession during which the Group obliges not to dispose of the repossessed collateral to third parties. As of 31 December 2014, the carrying value of the inventories of repossessed collateral which were subject to the repurchase agreement was GEL 33,283 thousand (2013: GEL 19,840 thousand, 2012: GEL 16,158 thousand).

14 Premises, Equipment and Intangible Assets

In thousands of GEL	Note	Premises and leasehold improve-ments	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2012		124,851	86,677	19,782	**231,310**	16,272	**247,582**
Accumulated depreciation/amortisation Including accumulated impairment loss		(18,302)	(49,129)	-	**(67,431)**	(6,208)	**(73,639)**
Carrying amount at 1 January 2012		**106,549**	**37,548**	**19,782**	**163,879**	**10,064**	**173,943**
Additions		1,892	16,533	23,969	**42,394**	10,750	**53,144**
Transfers		15,751	309	(16,060)	**-**	-	**-**
Transfers from Investment Property, net	15	(2,418)	-	-	**(2,418)**	-	**(2,418)**
Disposals		(2,149)	(5,478)	(609)	**(8,236)**	(16)	**(8,252)**
Transfer to Inventory		-	(309)	-	**(309)**	-	**(309)**
Increase / (decrease) in value on revaluation	28	1,585	-	8,928	**10,513**	-	**10,513**
Impairment charge to profit and loss		(768)	(1)	-	**(769)**	(1)	**(770)**
Depreciation/amortisation charge		(4,275)	(15,360)	-	**(19,635)**	(2,015)	**(21,650)**
Elimination of accumulated depreciation/amortisation on disposals		1,853	5,284	-	**7,137**	35	**7,172**
Carrying amount at 31 December 2012		**118,020**	**38,526**	**36,010**	**192,556**	**18,817**	**211,373**
Cost or valuation at 31 December 2012		138,744	97,732	36,010	**272,486**	27,003	**299,489**
Accumulated depreciation/amortisation including accumulated impairment loss		(20,724)	(59,206)	-	**(79,930)**	(8,186)	**(88,116)**
Carrying amount at 31 December 2012		**118,020**	**38,526**	**36,010**	**192,556**	**18,817**	**211,373**
Additions		3,458	18,136	3,199	**24,793**	8,729	33,522
Transfers		1,383	201	(1,584)	**-**	-	-
Transfers from (to) Investment Property, net	15	244	-	(345)	**(101)**	-	**(101)**
Disposals		(1,146)	(2,577)	(1,665)	**(5,388)**	(51)	**(5,439)**
Impairment charge to profit and loss		-	(219)	4	**(215)**	-	**(215)**
Depreciation/amortisation charge		(3,607)	(11,390)	-	**(14,997)**	(4,038)	**(19,035)**
Elimination of accumulated depreciation/amortisation on disposals		653	2,367	-	**3,020**	34	**3,054**
Carrying amount at 31 December 2013		**119,005**	**45,044**	**35,619**	**199,668**	**23,491**	**223,159**
Cost or valuation at 31 December 2013		142,683	113,273	35,619	**291,575**	35,681	327,256
Accumulated depreciation/amortisation including accumulated impairment loss		(23,678)	(68,229)	-	**(91,907)**	(12,190)	(104,097)
Carrying amount at 31 December 2013		**119,005**	**45,044**	**35,619**	**199,668**	**23,491**	**223,159**
Additions		800	26,684	1,383	**28,867**	19,884	**48,751**
Transfers		1,396	161	(1,557)	**-**	-	**-**
Transfers from (to) Investment Property, net	15	(646)	-	-	**(646)**	-	**(646)**
Disposals		(1,509)	(9,355)	(178)	**(11,042)**	(334)	**(11,376)**
Impairment charge to profit and loss		-	(220)	-	**(220)**	-	**(220)**
Depreciation/amortisation charge		(3,214)	(14,267)	-	**(17,481)**	(5,493)	**(22,974)**
Elimination of accumulated depreciation/amortisation on disposals		270	9,276	-	**9,546**	208	**9,754**
Carrying amount at 31 December 2014		**116,102**	**57,323**	**35,267**	**208,692**	**37,756**	**246,448**
Cost or valuation at 31 December 2014		142,724	130,543	35,267	**308,534**	55,231	**363,765**
Accumulated depreciation/amortisation including accumulated impairment loss		(26,622)	(73,220)	-	**(99,842)**	(17,475)	**(117,317)**
Carrying amount at 31 December 2014		**116,102**	**57,323**	**35,267**	**208,692**	**37,756**	**246,448**

14 Premises, Equipment and Intangible Assets (Continued)

Depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and a new headquarter of the Bank. Upon completion, assets are transferred to premises.

The Group revalues premises every three years, unless based on indicators in real estate market it becomes evident that the changes in fair values of premises might be significant, which would trigger more frequent revaluations. Premises were revalued to market value on 6 July 2012. The valuation was carried out by an independent firm of valuers which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

The basis used for the appraisal was sales comparison method. As part of sales comparison method, at least three market comparatives were identified. As comparatives were somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined were then multiplied by the area of the valued property to arrive at the appraised value of the premises.

In thousands of GEL (except for range of inputs)	**Fair value as of 6 July 2012 (valuation date)**	**Carrying value at 31 December 2013**	**Carrying value at 31 December 2014**	**Valuation technique**	**Other key information**	**Unobservable inputs**	**Range of unobservable inputs (weighted average)**
Office buildings	54,757	56,502	56,468	Sales comparison approach	Land	Price per square meter	382 - 3,784 (577)
					Buildings		244 - 2,926 (704)
Branches and service centers	81,134	82,437	75,878	Sales comparison approach	Land	Price per square meter	3 - 2,468 (345)
					Buildings		325 - 9,864 (2,292)

At 31 December 2014 the carrying amount of premises would have been GEL 86,039 thousand (2013: GEL 88,942 thousand; 2012: GEL 87,957 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2014 the carrying amount of construction in progress would have been GEL 20,000 thousand (2013: GEL 20,345 thousand; 2012: GEL 20,736 thousand) had the assets been carried at cost less impairment losses.

15 Investment Properties

In thousands of GEL	Note	2014	2013	2012
Gross book value at 1 January		84,879	34,973	27,621
Accumulated depreciation at 1 January		(1,496)	(668)	(539)
Carrying amount at 1 January		**83,383**	**34,305**	**27,082**
Transfer from property, plant and equipment	14	646	345	2,418
Transfer from inventories of repossessed collateral		2,059	23,648	19,230
Addition from foreclosure		772	38,638	-
Disposals at cost		(9,657)	(12,481)	(14,296)
Elimination of depreciation on disposal		466	130	324
Transfer to property, plant and equipment	14	-	(244)	-
Depreciation charge		(1,453)	(958)	(453)
Gross book value at 1 January		78,699	84,879	34,973
Accumulated depreciation at 1 January		(2,483)	(1,496)	(668)
Carrying amount at 31 December		**76,216**	**83,383**	**34,305**

At 31 December 2014, investment properties comprised of 9 lots (2013: 12 lots; 2012:10 lots) of land and 57 buildings (2013: 58 buildings; 2012: 22 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 79,056 thousand (2013: GEL 86,480 thousand; 2012: GEL 34,928 thousand). For details behind valuation refer to Note 3.

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

In thousands of GEL	2014	2013	2012
Not later than 1 year	107	163	68
Later than 1 year and not later than 5 years	1,008	1,736	1,657
Total operating lease payments receivable	**1,115**	**1,899**	**1,725**

16 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In thousands of GEL	2014	2013	2012
Carrying amount at 1 January	**2,726**	**2,726**	**2,726**
Addition from acquisition of subsidiary	-	-	-
Transfer on de-classification of non-current assets previously held for sale	-	-	-
Carrying amount at 31 December	**2,726**	**2,726**	**2,726**

16 Goodwill (Continued)

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

In thousands of GEL	2014	2013	2012
LLC TBC Kredit	1,262	1,262	1,262
JSC Bank Constanta	769	769	769
JSC United Financial Corporation	695	695	695
Total carrying amount of goodwill	**2,726**	**2,726**	**2,726**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by Management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2014	2013	2012
JSC Bank Constanta			
Growth rate beyond five years of Free Cash Flow to equity	6.00% p.a.	5.00% p.a.	5.00% p.a.
Pre-tax discount rate	18.82% p.a.	24.85% p.a.	24.11% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of Free Cash Flow to equity	6.00% p.a.	5.00% p.a.	5.00% p.a.
Pre-tax discount rate	22.36% p.a.	22.08% p.a.	21.50% p.a.
LLC TBC Kredit			
Growth rate beyond five years of Free Cash Flow to equity	4.00% p.a.	3.20% p.a.	5.00% p.a.
Pre-tax discount rate	17.05% p.a.	23.00% p.a.	22.41% p.a.

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates reflect specific risks relating to the relevant CGUs.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC Bank Constanta had been 10 percentage points higher than Management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2013: GEL 769 thousand and 16,402 thousand; 2012: GEL 769 thousand and 16,076 thousand). Recoverable amount of JSC Constanta Bank CGU exceeds its carrying amount by GEL 71,384 thousand (2013: GEL 20,467 thousand; 2012: GEL 13,370 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 29.36% p.a. (2013: 29.01% p.a.; 2012: 27.28% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10 percentage points higher than Management's estimates, the Group would need to reduce the carrying value of goodwill by GEL 695 thousand and carrying value of net assets of the CGU by GEL 2,915 thousand (2013: GEL 695 thousand and GEL 101thousand; 2012: nil). Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 801 thousand (2013: GEL 982 thousand; 2012: GEL 3,636 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 22.45% p.a. (2013: 23.02% p.a.; 2012: 40.01% p.a.)

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 10 percentage points higher than Management's estimates, the Group would not need to reduce the carrying value of goodwill (2013:nil; 2012: nil). Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 57,348 thousand (2013: GEL 16,829 thousand; 2012: GEL 13,972 thousand). The CGUs' carrying amount would equal its value in use at a discount rate 47.6% of p.a. (2013: 38.26% p.a; 2012: 37.86% p.a.).

17 Due to Credit Institutions

In thousands of GEL	2014	2013	2012
Due to other banks			
Correspondent accounts and overnight placements	37,247	4,894	6,569
Deposits from banks	47,802	42,358	53,700
Short-term loans from banks	934	-	15,935
Total due to other banks	**85,983**	**47,252**	**76,204**
Other borrowed funds			
Borrowings from foreign banks and financial institutions	452,469	417,504	479,854
Borrowings from local banks and financial institutions	204,475	92,987	63,599
Borrowings from Ministry of Finance	6,358	8,063	7,466
Total other borrowed funds	**663,302**	**518,554**	**550,919**
Total amounts due to credit institutions	**749,285**	**565,806**	**627,123**

18 Customer Accounts

In thousands of GEL	2014	2013	2012
State and public organisations			
- Current/settlement accounts	130,008	134,518	72,638
- Term deposits	47,084	72,463	225,926
Other legal entities			
- Current/settlement accounts	1,042,559	935,083	635,181
- Term deposits	125,605	134,143	155,112
Individuals			
- Current/demand accounts	684,521	621,211	386,737
- Term deposits	1,292,651	989,465	1,011,350
Total customer accounts	**3,322,428**	**2,886,883**	**2,486,944**

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2014		2013		2012	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Individual	1,977,172	60%	1,610,676	56%	1,398,087	56%
Trade and Service	435,414	13%	344,803	12%	211,729	8%
Construction	136,429	4%	131,427	5%	116,392	5%
Transportation	101,939	3%	129,096	4%	197,115	8%
Consumer Goods and Automobile Trading	86,729	3%	72,739	2%	50,286	2%
Oil and Gas	75,562	2%	147,005	5%	142,173	6%
Real Estate	72,843	2%	57,798	2%	45,116	2%
Food Industry	62,149	2%	97,421	3%	53,745	2%
Communication	57,677	2%	28,909	1%	19,305	1%
Energy	48,094	1%	57,179	2%	92,121	4%
Manufacturing	18,869	1%	21,013	1%	15,507	1%
Agriculture	17,755	1%	23,772	1%	14,198	0%
Mining	7,541	0%	21,746	1%	6,240	0%
Other	224,255	6%	143,299	5%	124,930	5%
Total customer accounts	**3,322,428**	**100%**	**2,886,883**	**100%**	**2,486,944**	**100%**

18 Customer accounts (Continued)

At 31 December 2014 the Group had 125 customers (2013: 97 customers; 2012: 78 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 1,111,385 thousand (2013: GEL 915,407 thousand; 2012: GEL 758,428 thousand) or 33% of total customer accounts (2013: 32%; 2012: 30%).

At 31 December 2014 included in customer accounts are deposits of GEL 636 thousand and GEL 71,902 thousand (2013: GEL 9,652 thousand and GEL 38,973 thousand; 2012: GEL 3,572 thousand and GEL 33,135 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 36.

Refer to Note 40 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 34. Information on related party balances is disclosed in Note 42.

19 Debt Securities in Issue

In thousands of GEL	Currency	Carrying amount in GEL as at 31 December 2014	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Azerbaijani market	AZN	7,236	16-Apr- 16	9.0%	9.7%
Bonds issued on Georgian market	USD	9,469	21-Jul-16	9.0%	9.7%
Bonds issued on Georgian market	USD	3,718	3 -Sep -17	8.4%	9.2%
Total debt securities in issue		**20,423**			

In thousands of GEL	Currency	Carrying amount in GEL as at 31 December 2013	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Azerbaijani market	AZN	4,474	1-Jan-14	7.0%	8.4%
Total debt securities in issue		**4,474**			

The group did not have any debt securities in issue as at 31 December 2012.

Refer to Note 40 for the disclosure of the fair value of debt securities in issue. Interest rate analysis of debt securities in issue are disclosed in Note 34.

20 Provisions for Performance Guarantees, Credit Related Commitments and Liabilities and Charges

Movements in provisions for performance guarantees, credit related commitment and liabilities and charges are as follows:

In thousands of GEL	Performance guarantees	Credit related commitments	Other	Total
Carrying amount at 1 January 2012	**5,426**	**1,708**	**1,300**	**8,434**
Additions less releases recorded in profit or loss	2,471	(866)	1,700	3,305
Utilisation of provision	(5,565)	-	-	(5,565)
Carrying amount at 31 December 2012	**2,332**	**842**	**3,000**	**6,174**
Additions less releases recorded in profit or loss	2,374	4,085	1,315	7,774
Utilisation of provision	(553)	-	(1,015)	(1,568)
Carrying amount at 31 December 2013	**4,153**	**4,927**	**3,300**	**12,380**
Additions less releases recorded in profit or loss	759	(1,661)	5,500	4,598
Utilisation of provision	-	-	(5,080)	(5,080)
Carrying amount at 31 December 2014	**4,912**	**3,266**	**3,720**	**11,898**

Credit related commitments and performance guarantees: Provision was created against losses incurred on financial and performance guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

Provisions for liabilities, charges, performance guarantees and credit related commitments are primarily expected to be utilised within twelve months after the year-end.

21 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of GEL	Note	2014	2013	2012
Trade payables		9,835	8,129	5,688
Debit or credit card payables		8,710	2,488	1,166
Security deposits for finance lease		6,915	6,098	3,388
Derivative financial liabilities	39	5,639	4,405	7,139
Other accrued liabilities		10,247	3,730	2,081
Total other financial liabilities		**41,346**	**24,850**	**19,462**

Refer to Note 40 for disclosure of the fair value of other financial liabilities.

22 Other Liabilities

Other liabilities comprise the following:

In thousands of GEL	2014	2013	2012
Accrued employee benefit costs	21,502	17,740	13,412
Taxes payable other than on income	10,232	9,705	1,337
Advances received	977	1,297	534
Other	2,264	2,563	5,461
Total other liabilities	**34,975**	**31,305**	**20,744**

All of the above liabilities are expected to be settled within twelve months after the year-end.

23 Subordinated Debt

At 31 December 2014, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,299	65,782
International Financial Corporation	23-Apr-09	12-Nov-18	USD	18,655	34,766
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	USD	18,676	34,804
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	USD	7,067	13,169
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,410	19,400
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,453	13,890
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,204	6,204
Total subordinated debt					**188,015**

At 31 December 2013, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	34,905	60,605
International Financial Corporation	23-Apr-09	12-Nov-18	18,558	32,222
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,585	32,269
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	10,394	18,048
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	7,441	12,920
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,032	12,210
Total subordinated debt			**96,915**	**168,274**

At 31 December 2012, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
International Financial Corporation	23-Apr-09	12-Nov-18	18,481	30,617
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,413	30,505
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	13-Dec-12	15-Apr-22	15,210	25,198
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	10,353	17,152
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,007	11,608
Total subordinated debt			**69,464**	**115,080**

The debt ranks after all other creditors in case of liquidation.

Refer to Note 40 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 42.

24 Share Capital

In thousands of GEL except for number of shares	Number of vested shares	Share capital	Share premium	Total
At 1 January 2012	**151,710**	**15,171**	**203,308**	**218,479**
Shares issued	8,145	815	23612	**24,427**
Increase in share capital arising from share based payment	1,564	157	4,581	**4,738**
At 31 December 2012	**161,419**	**16,143**	**231,501**	**247,644**
Shares issued	2,411	240	7,097	**7,337**
Increase in share capital arising from share based payment	1,157	116	4,026	**4,142**
At 31 December 2013	**164,987**	**16,499**	**242,624**	**259,123**
Share split	41,081,763	-	-	**-**
Shares issued	7,692,308	3,077	172,493	**175,570**
Transaction costs recognized directly in equity	-	-	(9,459)	**(9,459)**
At 31 December 2014	**48,939,058**	**19,576**	**405,658**	**425,234**

On 4 March 2014, Shareholders of the Bank approved the spilt of the ordinary shares 250-for-1 and authorised for issue additional 10,445,387 shares. Following this decision, the total authorised number of ordinary shares is 53,090,637 shares (31 December 2013: 170,581 shares), with a nominal value of GEL 0.4 per share after the split (31 December 2013: GEL 100 per share). All issued ordinary shares are fully paid.

In accordance with Georgian legislation, the number of issued ordinary shares and relevant amounts of share capital and share premium differ from presentation above due to accounting for share based payment transactions described in note 25.

In thousands of GEL except for number of shares	Number of outstanding shares	Share capital	Share premium	Total
At 1 January 2012	**151,710**	**15,171**	**203,308**	**218,479**
Shares issued	8,145	815	23612	**24,427**
Increase in share capital arising from share based payment	1,564	157	4,581	**4,738**
At 31 December 2012	**161,419**	**16,143**	**231,501**	**247,644**
Shares issued	2,411	240	7,097	**7,337**
Increase in share capital arising from share based payment	1,157	116	4,026	**4,142**
At 31 December 2013	**164,987**	**16,499**	**242,624**	**259,123**
Registering shares in the name of employees under share based payment arrangement	1,229	123	4,156	**4,279**
Share split	41,387,784	-	-	**-**
Shares issued	7,692,308	3,077	172,493	**175,570**
Transaction costs recognized directly in equity	-	-	(9,459)	**(9,459)**
At 31 December 2014	**49,246,308**	**19,699**	**409,814**	**429,513**

All ordinary shares rank equally except for 307,250 unvested shares that were registered in the name of the management under share based payment arrangement and which do not have voting rights before service conditions are met (see Note 25). These unvested shares are still included in number of outstanding shares per NBG accounting rules. All other shares carry one vote.

24 Share Capital (Continued)

In June 2014, 19,684,322 shares of the Bank were sold in the form of Global Depositary Receipts ("GDRs") on London Stock Exchange (the "LSE") pursuant to an initial public offering to institutional investors. 7,692,308 shares in the form of GDRs were sold by the Bank while the balance was sold by the selling shareholders. Bank of New York ("BNY") acts as a depositary of these shares. Each GDR represents 1 ordinary share of the Bank.

At the reporting date the Bank has 1,037,500 authorised shares reserved for issuance under share based payment arrangement (31 December 2013: 1,037,500 shares). For description of share based payment scheme refer to Note 25. Per management's estimate, the number of shares that the Bank will need to issue under the share based payment arrangement approximates 803,336 (31 December 2013: 699,250).

Transaction costs, that is, incremental costs, are costs directly attributable to the equity transaction that otherwise would have been avoided had the equity instruments not been issued. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

Included in transaction costs are fees paid to investment bankers, lawyers, underwriters and other professional advisers involved in the initial public offering.

25 Share Based Payments

May 2011 arrangement:

In May 2011, the Supervisory Board of the Bank approved a senior management bonus scheme for the years 2010 – 2012 and granted 3,300 new shares to the members of senior and middle management of the Group. According to the scheme, each year, subject to predefined performance conditions, certain number of the shares is awarded to the participants. The performance conditions are divided into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded depends on meeting team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth, profitability and portfolio quality metrics set by the Supervisory Board as well as compliance with certain regulatory ratios and covenants set by the lending international financial institutions. Individual performance indicators are defined separately for each participant and are used to calculate the number of shares that should be awarded to them out of the total bonus pool. The awarded shares were subject to continuous employment condition until 1 January 2014 when full title on the awarded shares was transferred to the scheme participants. Before this date, the shares were eligible to dividends but did not have voting rights and could not be sold or transferred to third parties. The Group considers 3 May 2011 as the grant date. The fair value of the shares as at the grant date was estimated at GEL 2,837 per share. The valuation was carried out by an external valuator. All staff costs related to this Senior Management Bonus scheme have been recognised during the vesting period. The last outstanding shares out of the 3,300 share grant were issued in April 2013 and the share based payment reserve was debited by GEL 4,142 thousand.

June 2013 arrangement:

In June 2013, Supervisory Board of the Bank approved a new management compensation scheme for the years 2013 – 2015 and authorised 4,150 new shares as a maximum estimated number of new shares to be issued in accordance with the scheme. Authorized numbers of new shares have increased to 1,037,500 new shares in order to reflect the share split 250-for-1 approved by the Shareholders on 4 March 2014. According to the scheme, each year, subject to predefined performance conditions, certain number of the shares will be awarded to the top management and some of the middle managers of the Group. The performance conditions are divided into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded depends on meeting the team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth, profitability and portfolio quality metrics set by the Supervisory Board as well as compliance with certain regulatory requirements. The total number of shares in the bonus pool depends on achievement of team goals. Individual performance indicators are defined separately for each participant and are used to calculate the number of shares to be awarded to them out of the total bonus pool. After awards, these shares carry service conditions and before those conditions are met the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares of each of 2013, 2014 and 2015 tranche vest gradually on the second, third and fourth year following the performance appraisal. Eighty percent of the shares vest in the fourth year after the award. Under this compensation system the total vesting period extends to June 2019.

25 Share Based Payments (Continued)

The shareholders and Supervisory Board have granted put options on the shares to be awarded under the new management compensation scheme. In addition, the shareholders and the Supervisory Board have granted put options on all bonus shares awarded under the previous share based payment arrangements. All of the put options became null and void upon the listing of the Bank's shares on LSE in June 2014. At no point of the operation of the share based payment scheme did the management expect the put options to be exercised. Consequently, the scheme was accounted for as equity-settled scheme and no obligation was recognised for the put options. The Group considers 20 June 2013 as the grant date. Based on management's estimate of expected achievement of performance and service conditions 732,000 shares have been granted that will be gradually awarded to the members of the scheme as described above. The fair value of the share at the grant date, as adjusted for the effect of 250-for-1 share split, is evaluated at GEL 13,93 per share and the valuation was carried out by an external valuator. The valuation was performed by applying the income and market approaches. The market approach involved estimating market capitalization to book value of equity multiple and deal price to book value of equity multiple for comparable banks. When selecting comparable banks, the appraiser chose banks that operated in the Black Sea region and Central and Eastern Europe and had similar portfolio mix and growth priorities as TBC Bank. Income approach involved discounting free cash flows to equity estimated over 10-year horizon. When developing the projections, the following major assumptions were made:

- Over 2013-2023 period, the compound annual growth rate was assumed at 15.2% for loans and at 15.1% for customer accounts.
- The spread on the bank's customer business was assumed to gradually decline from estimated 10.2% in 2013 till it would stabilize at 5.8% in 2021.
- Over 2013-2023 period, non-interest income was forecast to average 1.8% of customer volume (i.e. gross loans and deposits).
- Year-on-year growth in various components of employee compensation was assumed at 37.6%-56.0% in 2014, 2.4%-9.8% in 2015 and was then assumed to gradually decline to 2.1%-3.6% in 2023. Year-on-year growth in administrative expenses was assumed at 38.3% in 2014, 10.4% in 2015 and was then assumed to gradually decline to 3.3% in 2023.
- The Bank's terminal value was estimated using Gordon growth model, applying US long-term inflation forecast (2.1%) as the Bank's terminal cash flows growth rate.
- Bank's cost of equity was estimated at 15.10%.

The final valuation was based on income approach, with market approach serving as a reasonableness check on the result obtained by the income approach. The value of Bank's equity so calculated was then divided by the number of ordinary shares issued as of valuation date and further reduced with the discount for lack of control.

25 Share Based Payments (Continued)

The Bank also pays personal income tax on behalf of equity settled scheme beneficiaries which is accounted as cash settled part. Tabular information on both of the schemes is given below:

In GEL except for number of shares	**31 December 2014**	**31 December 2013 (not adjusted for the share split)**	**31 December 2012 (not adjusted for the share split)**
Number of unvested shares at the beginning of the period	**2,797**	**1,157**	**2,721**
Number of shares granted		2,797	-
Increase in the number of unvested shares due to 250-for-1 split	696,453	-	-
Change in estimate of number of shares expected to vest based on performance conditions	104,086	-	-
Number of shares vested	-	(1,157)	(1,564)
Number of unvested shares at the end of the period	**803,336**	**2,797**	**1,157**
Value at grant date per share as adjusted for 250-for-1 split (GEL) / Value at grant date per share (GEL)	13.93	3,482	2,837
Expense on equity-settled part (GEL thousand)	2,592	2,032	2,700
Expense on cash-settled part (GEL thousand)	1,710	2,055	676
Expense recognised as staff cost during the period (GEL thousand)	**4,302**	**4,087**	**3,376**

Liability in respect of the cash-settled part of the award amounted to GEL 1,710 thousand as of 31 December 2014 (2013: GEL 2,055 thousand; 2012: GEL 432 thousand).Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity.

26 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year.

In thousands of GEL except for number of shares	2014	2013	2012
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme – refer to Note 25)	156,469	121,616	96,519
Weighted average number of ordinary shares in issue	45,524,938	40,978,000	38,292,250
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**3.4**	**3.0**	**2.5**

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential ordinary shares during the year:

In thousands of GEL except for number of shares	2014	2013	2012
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme – refer to Note 25)	157,071	121,616	96,519
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	45,968,817	41,055,500	38,292,250
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**3.4**	**3.0**	**2.5**

Weighted average number of ordinary shares in issue as at 31 December 2013 and 2012 has been adjusted for the 250-for-1 share split that took place in March 2014.

27 Segment Analysis

The chief operating decision maker which is the Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. In 2014, the Board has changed the way it analyses certain information in order to enhance the control and monitoring of the Group's performance. This has resulted in the creation of a new segment 'Corporate Center and Other Operations' and a change in the presentation of segment information. The operating segments are now determined as follows:

- Retail – all individual customers of the Group as well as customers that have been granted gold-pawn loans.
- Corporate – business customers which have annual revenue of GEL 8.0 million or more or have been granted a loan in an amount equivalent to USD 1.5 million or more. Some other significant legal entity customers may also be assigned the status of being a corporate customer, on a discretionary basis; for example, if they are regarded by the Group as having strong growth potential.
- SME – business customers that are not included either in the corporate or micro segments.
- Micro – all business customers of Bank Constanta, that have been granted loans by and/or have deposits with Bank Constanta, the amount of which in neither case exceeds USD 150 thousand.
- Corporate Center and Other Operations – comprise the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax.

The reportable segments are the same as the operating segments.

The vast majority of the entity's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in note 34.

Segment information for the reportable segments of the Group for the years ended 31 December 2014, 2013 and 2012 is set out below:

27 Segment Analysis (Continued)

In thousands of GEL	Retail	Corporate	SME	Micro	Corporate centre and other operations	Total
31 December 2014						
- Interest income	237,804	116,404	53,739	57,573	46,837	**512,357**
- interest expense	(80,808)	(21,845)	(7,196)	(192)	(63,668)	**(173,709)**
- Inter-segment interest income/(expense)	7,499	(42,246)	(3,640)	(18,468)	56,855	**-**
- **Net interest income**	**164,495**	**52,313**	**42,903**	**38,913**	**40,024**	**338,648**
- Fee and commission income	46,368	18,093	9,268	3,498	10,976	**88,203**
- Fee and commission expense	(26,230)	(1,312)	(906)	(911)	(164)	**(29,523)**
- **Net Fee and commission income**	**20,138**	**16,781**	**8,362**	**2,587**	**10,812**	**58,680**
- Gains less losses from trading in foreign currencies	9,932	12,456	13,286	1,820	2,236	**39,730**
- Foreign exchange translation losses less gains	-	-	-	-	2,359	**2,359**
- Net gain from derivative financial instruments	-	-	-	-	(683)	**(683)**
- Other operating income	-	-	-	-	19,600	**19,600**
- **Other operating non-interest income**	**9,932**	**12,456**	**13,286**	**1,820**	**23,512**	**61,006**
- Provision for loan impairment	(22,046)	(18,995)	(1,625)	(6,006)	-	**(48,672)**
- Provision for performance guarantees and credit related commitments	-	885	17	-	-	**902**
- Provision for impairment of investments in finance lease	-	-	-	-	(77)	**(77)**
- Provision for impairment of other financial assets	-	-	-	-	(1,236)	**(1,236)**
- Impairment of investment securities available for sale	-	-	-	-	(22)	**(22)**
- **Profit before administrative and other expenses and income taxes**	**172,519**	**63,440**	**62,943**	**37,314**	**73,013**	**409,229**
- Staff costs	(55,427)	(11,826)	(10,755)	(15,808)	(29,019)	**(122,835)**
- Depreciation and amortisation	(13,132)	(780)	(1,915)	(3,579)	(5,021)	**(24,427)**
- Provision for liabilities and charges	-	-	-	-	(5,500)	**(5,500)**
- Administrative and other operating expenses	(36,026)	(4,432)	(4,981)	(9,600)	(18,509)	**(73,548)**
- **Operating expenses**	**(104,585)**	**(17,038)**	**(17,651)**	**(28,987)**	**(58,049)**	**(226,310)**
- **Profit before tax**	**67,934**	**46,402**	**45,292**	**8,327**	**14,964**	**182,919**
- Income tax expense	(9,087)	(6,207)	(6,059)	(1,114)	(2,001)	**(24,468)**
- **Profit for the year**	**58,847**	**40,195**	**39,233**	**7,213**	**12,963**	**158,451**
Total gross loans and advances to customers reported	1,666,913	1,231,729	533,919	273,699	-	**3,706,260**
Total customer accounts reported	1,977,172	832,555	507,816	4,885	-	**3,322,428**
Total credit related commitments and performance guarantees	94	390,763	30,292	19	-	**421,168**

27 Segment Analysis (Continued)

In thousands of GEL	Retail	Corporate	SME	Micro	Corporate centre and other operations	Total
31 December 2013						
- Interest income	207,028	131,385	44,370	51,185	40,828	**474,796**
- interest expense	(96,144)	(35,721)	(7,622)	(426)	(52,233)	**(192,146)**
- Inter-segment interest income/(expense)	24,157	(50,675)	(3,679)	(15,045)	45,242	**-**
- **Net interest income**	**135,041**	**44,989**	**33,069**	**35,714**	**33,837**	**282,650**
- Fee and commission income	40,823	15,881	7,349	2,444	7,864	**74,361**
- Fee and commission expense	(17,627)	(4,688)	(1,089)	(620)	(277)	**(24,301)**
- **Net Fee and commission income**	**23,196**	**11,193**	**6,260**	**1,824**	**7,587**	**50,060**
- Gains less losses from trading in foreign currencies	8,614	12,522	9,244	1,513	6,001	**37,894**
- Foreign exchange translation losses less gains	-	-	-	-	(5,901)	**(5,901)**
- Net gain from derivative financial instruments	-	-	-	-	613	**613**
- Other operating income	-	-	-	-	16,136	**16,136**
- **Other operating non-interest income**	**8,614**	**12,522**	**9,244**	**1,513**	**16,849**	**48,742**
- Provision for loan impairment	(13,377)	(17,035)	(88)	(2,471)	-	**(32,971)**
- Provision for performance guarantees and credit related commitments	-	(6,124)	(335)	-	-	**(6,459)**
- Provision for impairment of investments in finance lease	-	-	-	-	(98)	**(98)**
- Provision for impairment of other financial assets	-	-	-	-	(2,236)	**(2,236)**
- Impairment of investment securities available for sale	-	-	-	-	(1,142)	**(1,142)**
- **Profit before administrative and other expenses and income taxes**	**153,474**	**45,545**	**48,150**	**36,580**	**54,797**	**338,546**
- Staff costs	(49,949)	(8,329)	(9,909)	(14,138)	(26,288)	**(108,613)**
- Depreciation and amortisation	(11,862)	(753)	(1,904)	(2,061)	(3,413)	**(19,993)**
- Provision for liabilities and charges	-	-	-	-	(1,315)	**(1,315)**
- Administrative and other operating expenses	(32,693)	(3,175)	(4,135)	(10,130)	(18,559)	**(68,692)**
- **Operating expenses**	**(94,504)**	**(12,257)**	**(15,948)**	**(26,329)**	**(49,575)**	**(198,613)**
- **Profit before tax**	**58,970**	**33,288**	**32,202**	**10,251**	**5,222**	**139,933**
- Income tax expense	(6,602)	(3,726)	(3,604)	(1,147)	(584)	**(15,663)**
- **Profit for the year**	**52,368**	**29,562**	**28,598**	**9,104**	**4,638**	**124,270**
Total gross loans and advances to customers reported	1,207,514	1,157,334	392,446	201,287	-	**2,958,581**
Total customer accounts reported	1,610,676	819,779	451,985	4,443	-	**2,886,883**
Total credit related commitments and performance guarantees	256	346,587	43,099	127	-	**390,069**

27 Segment Analysis (Continued)

Starting from 2014, the chief operating decision maker is reviewing the more detailed segmental analysis in order to assess performance and allocate resources. Before that segment information was presented only for certain items of the profit and loss statements.

Segment information for the reportable segments as it was presented before 2014, is set out below for the year ended 31 December 2012:

In thousands of GEL	**Retail**	**Corporate**	**SME**	**Micro**	**Total**
31 December 2012					
External revenues:					
- Interest income on loans and advances to customers	189,942	148,720	38,486	37,101	**414,249**
- Fee and commission income	33,860	15,333	7,442	1,505	**58,140**
- Gains less losses from trading in foreign currencies	6,858	15,580	8,242	875	**31,555**
Revenue from external customers	**230,660**	**179,633**	**54,170**	**39,481**	**503,944**
External Expenses:					
- Interest expense on customer accounts	93,854	55,560	7,026	194	**156,634**
- Fee and commission expense	13,459	438	713	427	**15,037**
- Provision for loan impairment	16,298	1,190	1,198	4,468	**23,154**
- Provision for liabilities and charges	(1)	2,045	(438)	-	**1,606**
Expenses from external customers	**123,610**	**59,233**	**8,499**	**5,089**	**196,431**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**107,050**	**120,400**	**45,671**	**34,392**	**307,513**
31 December 2012					
Total gross loans and advances to customers reported	954,463	1,142,087	294,217	145,931	**2,536,698**
Total customer accounts reported	1,398,087	800,346	285,219	3,292	**2,486,944**
Total credit related commitments and performance guarantees	253	336,765	24,804	-	**361,822**

27 Segment Analysis (Continued)

A reconciliation of adjusted profit before non-segmental income, administrative and other expenses and income tax is provided as follows:

In thousands of GEL	**31 December 2012**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**307,513**
Non-segmental interest income	42,296
Non-segmental interest expense	(61,261)
Non-segmental fee and commission income	6,092
Non-segmental fee and commission expense	(3,793)
Non-segmental losses less gains from trading in foreign currency	(6,315)
Non-segmental provision for liabilities and charges	(1,700)
Net losses from derivative financial instruments	(3,804)
Foreign exchange translation gains less losses	7,617
Impairment of impairment for investment securities available for sale	(10)
Provision for impairment of investments in finance lease	(42)
Provision for impairment of other financial assets	(4,132)
Other operating income	13,680
Staff costs	(92,289)
Depreciation and amortisation	(22,103)
Administrative and other operating expenses	(69,440)
Profit before tax	**112,309**

Reportable segments' assets are reconciled to total assets as follows:

In thousands of GEL	**31 December 2014**	**31 December 2013**	**31 December 2012**
Total segment assets (gross loans and advances to customers)	3,706,260	2,958,581	2,536,698
Provision for loan impairment	(149,764)	(156,869)	(166,498)
Cash and cash equivalents	532,118	390,465	398,587
Mandatory cash balances with National Bank of Georgia	336,075	295,332	316,061
Due from other banks	33,704	1,708	29,542
Investment securities available for sale	466,510	500,651	407,733
Current income tax prepayment	251	6,202	10,135
Deferred income tax asset	383	-	-
Other financial assets	43,857	45,049	25,301
Investments in finance leases	50,907	35,613	26,377
Other assets	77,775	65,075	67,354
Premises and equipment	208,692	199,668	192,556
Intangible assets	37,756	23,491	18,817
Investment properties	76,216	83,383	34,305
Goodwill	2,726	2,726	2,726
Total assets per statement of financial position	**5,423,466**	**4,451,075**	**3,899,694**

27 Segment Analysis (Continued)

Reportable segments' liabilities are reconciled to total liabilities as follows:

In thousands of GEL	**31 December 2014**	**31 December 2013**	**31 December 2012**
Total segment liabilities (customer accounts)	3,322,428	2,886,883	2,486,944
Due to Credit institutions	749,285	565,806	627,123
Debt securities in issue	20,423	4,474	-
Current income tax liability	12,433	-	-
Deferred income tax liability	23,187	27,814	20,143
Provisions for liabilities and charges	11,898	12,380	6,174
Other financial liabilities	41,346	24,850	19,462
Other liabilities	34,975	31,305	20,744
Subordinated debt	188,015	168,274	115,080
Total liabilities per statement of financial position	**4,403,990**	**3,721,786**	**3,295,670**

Reportable segments' interest income is reconciled to total interest income as follows:

In thousands of GEL	**31 December 2014**	**31 December 2013**	**31 December 2012**
Segments' interest income	**465,520**	**433,968**	**414,249**
Investment securities available for sale (Note 10)	30,361	30,442	27,211
Due from other banks	6,211	3,030	6,960
Investment securities held to maturity	-	-	2,373
Investments in leases	10,265	7,356	5,734
Other	-	-	18
Total interest income	**512,357**	**474,796**	**456,545**

Reportable segments' interest expense is reconciled to total interest expense as follows:

In thousands of GEL	**31 December 2014**	**31 December 2013**	**31 December 2012**
Segments' interest expense	110,041	139,913	156,634
Due to credit institutions	43,384	38,645	47,946
Subordinated debt	19,069	13,182	13,226
Other	1,215	406	89
Total interest expense	**173,709**	**192,146**	**217,895**

28 Other Reserves

In thousands of GEL	Note	Revaluation reserve for: Premises	Revaluation reserve for: Available for sale securities	Cumulative currency translation reserve	Total other reserves
At 1 January 2012		**28,269**	**2,520**	**2,373**	**33,162**
Revaluation of investments available for sale	10	-	682	-	682
Revaluation of premises	14	10,513	-	-	10,513
Transfer of revaluation surplus on premises to retained earnings		(527)	-	-	(527)
Currency translation		-	-	(217)	(217)
Income tax effects		(1,520)	(154)	-	(1,674)
At 31 December 2012		**36,735**	**3,048**	**2,156**	**41,939**
Revaluation of investments available for sale	10	-	7,923	-	7,923
Currency translation		-	-	1,233	1,233
Income tax effects		-	(255)	-	(255)
At 31 December 2013		**36,735**	**10,716**	**3,389**	**50,840**
Revaluation of investments available for sale	10	-	(1,849)	-	(1,849)
Currency translation		-	-	2,095	2,095
Income tax effects		305	(192)	-	113
Increase arising on revaluation of properties as a result of acquisition of non-controlling interest		89	-	-	89
Transfer of revaluation surplus to retained earnings due to sale		(2,033)	-	-	(2,033)
At 31 December 2014		**35,096**	**8,675**	**5,484**	**49,255**

Revaluation reserve for available for sale securities is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for premises is transferred to retained earnings when realised through sale or other disposal.

29 Interest Income and Expense

In thousands of GEL	2014	2013	2012
Interest income			
Loans and advances to customers	465,520	433,968	414,249
Investment securities available for sale (Note10)	30,361	30,442	27,211
Investments in leases	10,265	7,356	5,734
Due from other banks	6,211	3,030	6,960
Investment securities held to maturity	-	-	2,373
Other	-	-	18
Total interest income	**512,357**	**474,796**	**456,545**
Interest expense			
Customer accounts	110,041	139,913	156,634
Due to credit institutions	43,384	38,645	47,946
Subordinated debt	19,069	13,182	13,226
Other	1,215	406	89
Total interest expense	**173,709**	**192,146**	**217,895**
Net interest income	**338,648**	**282,650**	**238,650**

30 Fee and Commission Income and Expense

In thousands of GEL	2014	2013	2012
Fee and commission income			
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
- Card operations	35,247	33,012	27,782
- Settlement transactions	23,892	18,543	15,160
- Guarantees issued	9,140	6,271	9,530
- Issuance of letters of credit	6,889	6,769	2,762
- Cash transactions	6,507	5,040	4,092
- Foreign exchange operations	1,169	1,550	1,632
- Other	5,359	3,176	3,274
Total fee and commission income	**88,203**	**74,361**	**64,232**
Fee and commission expense			
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
- Card operations	16,053	13,143	9,657
- Guarantees received	4,161	4,048	3,625
- Settlement transactions	2,594	2,157	1,501
- Cash transactions	2,592	1,544	1,084
- Foreign exchange operations	62	70	62
- Other	4,061	3,339	2,901
Total fee and commission expense	**29,523**	**24,301**	**18,830**
Net fee and commission income	**58,680**	**50,060**	**45,402**

31 Other Operating Income

In thousands of GEL	2014	2013	2012
Revenues from operational leasing	6,997	2,980	3,292
Gain from sale of investment properties	5,795	5,835	2,734
Gain from sale of inventories of repossessed collateral	1,644	1,519	4,102
Administrative fee income from international financial institutions	982	1,268	1,163
Revenues from sale of cash-in terminals	852	760	-
Revenues from non-credit related fines	236	339	434
Gain on disposal of premises and equipment	126	37	-
Net gain on terminated finance lease contracts	-	-	108
Other	2,968	3,398	1,847
Total other operating income	**19,600**	**16,136**	**13,680**

Carrying value of inventories of repossessed collateral disposed of during year ended 31 December 2014 was GEL 13,721 thousand (2013: GEL 19,558 thousand; 2012: GEL 7,212 thousand).

32 Administrative and Other Operating Expenses

In thousands of GEL	2014	2013	2012
Advertising and marketing services	14,121	13,211	15,183
Professional services	11,969	6,247	10,054
Rent	11,943	10,809	10,295
Intangible asset enhancement	4,371	3,767	2,605
Taxes other than on income	3,900	3,043	3,363
Utility services	3,681	3,369	3,036
Communications and supply	3,455	3,103	3,199
Stationery and other office expenses	2,632	2,360	2,958
Insurance	1,899	1,496	1,440
Premises and equipment maintenance	1,893	2,484	1,904
Business trip expenses	1,610	1,230	1,104
Security services	1,578	1,597	1,522
Transportation and vehicle maintenance	1,216	1,215	1,687
Personnel training and recruitment	919	902	574
Charity	898	905	911
Loss on disposal of inventories	208	221	-
Write-down of current assets to fair value less costs to sell	190	6,178	1,317
Loss on disposal of premises and equipment	18	54	1,658
Loss on disposal of investment properties	-	76	-
Other	7,047	6,425	6,630
Total administrative and other operating expenses	**73,548**	**68,692**	**69,440**

33 Income Taxes

Income tax expense comprises the following:

In thousands of GEL	2014	2013	2012
Current tax charge	29,365	8,247	4,077
Deferred tax (credit)/charge	(4,897)	7,416	10,421
Income tax expense for the year	**24,468**	**15,663**	**14,498**

The income tax rate applicable to the majority of the Group's income is 15% (2013: 15%; 2012: 15%). The income tax rate applicable to the majority of subsidiaries income ranges from 15% to 20% (2013: 15% - 20%; 2012: 15% - 20%).

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

In thousands of GEL	2014	2013	2012
Profit before tax	**182,919**	**139,933**	**112,309**
Theoretical tax charge at statutory rate (2014: 15%; 2013: 15%; 2012: 15%)	27,438	20,990	16,846
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income which is exempt from taxation	(4,678)	(4,865)	(4,756)
- Non-deductible expenses and other differences	1,708	1,758	2,408
- Recognition of previously unrecognized deferred tax assets	-	(2,220)	-
Income tax expense for the year	**24,468**	**15,663**	**14,498**

The Group has not recorded a deferred tax liability in respect of temporary differences of GEL 6,141 thousand (2013: GEL 3,653 thousand; 2012: GEL 1,524 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences, and does not intend to reverse them in the foreseeable future.

33 Income Taxes (Continued)

Differences between IFRS and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2013: 15%; 2012: 15%) for Georgia and 20% for Azerbaijan (2013: 20%; 2012: 20%).

In thousands of GEL	**31 December 2013**	**(Charged)/ credited to profit or loss**	**(Charged)/credited directly to other comprehensive income**	**31 December 2014**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(18,306)	(2,039)	305	(20,040)
Loan impairment provision	(5,666)	948	-	(4,718)
Fair valuation of investment securities available for sale	(557)	(475)	(192)	(1,224)
Other financial assets	191	4,292	-	4,483
Other assets	1,741	2,423	-	4,164
Investment in leases	(13)	42	-	29
Investment property	(7,012)	576	-	(6,436)
Due to credit institutions	464	(756)	-	(292)
Subordinated debt	(289)	30	-	(259)
Other financial liabilities	1,027	790	-	1,817
Other liabilities	301	(681)	-	(380)
Share based payment	305	(253)	-	52
Net deferred tax asset/(liability)	**(27,814)**	**4,897**	**113**	**(22,804)**
Recognised deferred tax asset	-	383	-	**383**
Recognised deferred tax liability	**(27,814)**	4,514	113	**(23,187)**
Net deferred tax asset/(liability)	**(27,814)**	**4,897**	**113**	**(22,804)**

In thousands of GEL	**31 December 2012**	**(Charged)/ credited to profit or loss**	**Charged directly to other comprehensive income**	**31 December 2013**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(16,961)	(1,345)	-	(18,306)
Loan impairment provision	(834)	(4,832)	-	(5,666)
Fair valuation of investment securities available for sale	(473)	171	(255)	(557)
Tax loss carry forwards	678	(678)	-	-
Other financial assets	1,320	(1,129)	-	191
Other assets	865	876	-	1,741
Investment in leases	(197)	184	-	(13)
Investment property	(2,576)	(4,436)	-	(7,012)
Due to credit institutions	(433)	897	-	464
Subordinated debt	(219)	(70)	-	(289)
Other Financial liabilities	-	1,027	-	1,027
Other Liabilities	(1,313)	1,614	-	301
Share based payment	-	305	-	305
Net deferred tax asset/(liability)	**(20,143)**	**(7,416)**	**(255)**	**(27,814)**

33 Income Taxes (Continued)

In thousands of GEL	1 January 2012	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2012
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(13,790)	(1,651)	(1,520)	(16,961)
Loan impairment provision	9,752	(10,586)	-	(834)
Fair valuation of investment securities available for sale	(407)	88	(154)	(473)
Tax loss carry forwards	198	480	-	678
Other financial assets	-	1,320	-	1,320
Other assets	(276)	1,141	-	865
Investment in leases	3	(200)	-	(197)
Investment property	(2,382)	(194)	-	(2,576)
Due to credit institutions	(521)	88	-	(433)
Subordinated debt	(167)	(52)	-	(219)
Other liabilities	(458)	(855)	-	(1,313)
Net deferred tax asset/(liability)	**(8,048)**	**(10,421)**	**(1,674)**	**(20,143)**

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

34 Financial and Other Risk Management

The risk management function within the Group is carried out in respect of the following risks: credit, geographical, market which includes principally currency and interest rate risks, liquidity, operational strategic and reputational risks. The primary objectives of the risk management function are to (i) contribute to the development of the Group’s business strategy by ensuring risk adjusted profitability and (ii) guarantee the Group’s sustainable development through the implementation of efficient risk management systems.

Group's risk management process encompasses all the activities that affect its risk profile and consists of the following core elements: (i) active board and senior management oversight; (ii) adequate policies and procedures aimed at effectively controlling risk exposures; (iii) adequate risk identification, measurement and management systems; and (iv) comprehensive internal controls.

The monitoring and implementation of TBC Bank's risk management function is split among eight principal risk management bodies: the Supervisory Board, the Risk, Ethics and Compliance Committee, the Audit Committee, the Management Board, the Credit Committee, the Operational Risks Committee, the Assets and Liabilities Management Committee and the Problem Loans Committee.

TBC Bank's risk management policies are implemented through a number of its departments, including the Internal Audit, Financial Risk Management, Treasury, Credit Risk Management, Corporate, SME and Retail Credit Risk Management, Operational Risk Management, Legal and Compliance Departments, each of which reports to one of the principal risk management bodies referred to above.

TBC Bank also employs a Chief Risk Officer, who reports to the Management Board and who is responsible for supervising all risk management activities across TBC Bank's business except for financial risk management, which is supervised by the Chief Financial Officer. The Chief Risk Officer is also required to ensure that TBC Bank's risk exposure level is in accordance with the defined limits set forth in TBC Bank's Risk Appetite Statement and that its operations are adequate in light of TBC Bank's risk profile. The Chief Risk Officer and Chief Financial Officer have independent access to the Chairman of the Risk, Ethics, and Compliance Committee.

34 Financial and Other Risk Management (Continued)

Credit risk. The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position as well as for financial and performance guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 36.The subcategories of credit risk are: counterparty credit risk (the risk default or non-fulfilment of contracts due to a deterioration in the counterparty's credit quality); concentration risk (the risk of portfolio quality deterioration due to large exposures to small number of borrowers or individual industries); currency-induced credit risks (risks arising from foreign currency-denominated loans in the portfolio); and residual risks (resulting from the use of credit risk-mitigation techniques).

For efficient management of credit risk the adequate policies, and procedures are in place. The credit policies establish framework for lending decisions reflecting the Bank's tolerance for credit risk.

The credit risks are managed at the transaction and portfolio level. At the transaction level credit risk management includes: credit applications review, credit application rating review, approval of credits and monitoring of individual borrowers' financial standing. As for the portfolio level – credit risk management includes: definition of the risk appetite, credit portfolio analysis, industry analysis, concentrations management, rating models development, expected losses estimation, undertaking stress tests for unexpected losses estimation and development of credit policies and instructions. Loan Approval Committees are responsible to review credit applications and approve credit products. Different Loan Approval Committees are in place for the approval of credit exposures to retail, corporate, SME and micro customers. The composition of a Loan Approval Committee depends on aggregated liabilities of the borrower and the borrower's risk profile. Credit risk managers (as members of corresponding Loan Approval Committees) ensure that the borrower and proposed credit exposure risks are thoroughly analysed. A loan to a "large borrower" (a borrower with exposure to more than 5% of TBC Bank's Basel capital) requires the review and approval of the Risk, Ethics and Compliance Committee.

The Group has established portfolio monitoring systems in order to manage its credit exposure effectively. Reports are generated on a daily, weekly, monthly and quarterly basis in order to monitor the dynamics of loan portfolio of the Bank's various business segments and ensure compliance with predefined risk appetite limits.

The Credit Risk Management Department analyses trends of the portfolio on a monthly basis, including total credit portfolio exposure, concentrations, maturities, volumes and performance of non-performing loans, write-offs and recoveries, and presents its findings to the Management Board. Furthermore, reports relating to the credit quality of the credit portfolio, compliance with risk appetite limits, TBC Bank's related and connected party exposures, results of stress tests are presented to the Supervisory Board and Risk Ethics and Compliance Committee on a quarterly basis. The Bank's Credit Risk Management Department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

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

Geographical risk concentrations. Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

34 Financial and Other Risk Management (Continued)

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

In thousands of GEL	**Georgia**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	348,237	91,896	91,985	**532,118**
Due from other banks	615	3,910	29,179	**33,704**
Mandatory cash balances with National Bank of Georgia	336,075	-	-	**336,075**
Loans and advances to customers	3,397,855	71,971	86,670	**3,556,496**
Investment securities available for sale	460,370	6,140	-	**466,510**
Investments in leases	50,907	-	-	**50,907**
Other financial assets	43,802	55	-	**43,857**
Total financial assets	**4,637,861**	**173,972**	**207,834**	**5,019,667**
Non-financial assets	**401,744**	**22**	**2,033**	**403,799**
Total assets	**5,039,605**	**173,994**	**209,867**	**5,423,466**
Liabilities				
Due to credit institutions	279,445	411,605	58,235	**749,285**
Customer accounts	2,931,114	312,470	78,844	**3,322,428**
Debt securities in issue	3,718	-	16,705	**20,423**
Other financial liabilities	37,677	3,454	215	**41,346**
Subordinated debt	6,204	181,811	-	**188,015**
Total financial liabilities	**3,258,158**	**909,340**	**153,999**	**4,321,497**
Non-financial liabilities	**81,365**	**178**	**950**	**82,493**
Total liabilities	**3,339,523**	**909,518**	**154,949**	**4,403,990**
Net balance sheet position	**1,700,082**	**(735,524)**	**54,918**	**1,019,476**
Performance guarantees	**183,528**	**-**	**-**	**183,528**
Credit related commitments	**513,746**	**-**	**-**	**513,746**

34 Financial and Other Risk Management (Continued)

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

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	242,264	74,279	73,922	**390,465**
Due from other banks	-	1,630	78	**1,708**
Mandatory cash balances with National Bank of Georgia	295,332	-	-	**295,332**
Loans and advances to customers	2,639,915	91,492	70,305	**2,801,712**
Investment securities available for sale	495,793	4,858	-	**500,651**
Investments in leases	35,613	-	-	**35,613**
Other financial assets	44,990	59	-	**45,049**
Total financial assets	**3,753,907**	**172,318**	**144,305**	**4,070,530**
Non-financial assets	**379,248**	**28**	**1,269**	**380,545**
Total assets	**4,133,155**	**172,346**	**145,574**	**4,451,075**
Liabilities				
Due to credit institutions	115,519	403,179	47,108	**565,806**
Customer accounts	2,513,794	347,410	25,679	**2,886,883**
Debt securities in issue	-	-	4,474	**4,474**
Other financial liabilities	19,638	5,164	48	**24,850**
Subordinated debt	-	168,274	-	**168,274**
Total financial liabilities	**2,648,951**	**924,027**	**77,309**	**3,650,287**
Non-financial liabilities	**70,160**	**92**	**1,247**	**71,499**
Total liabilities	**2,719,111**	**924,119**	**78,556**	**3,721,786**
Net balance sheet position	**1,414,044**	**(751,773)**	**67,018**	**729,289**
Performance guarantees	**156,551**	**-**	**-**	**156,551**
Credit related commitments	**422,239**	**-**	**-**	**422,239**

34 Financial and Other Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2012 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	216,913	160,598	21,076	**398,587**
Due from other banks	28,164	1,378	-	**29,542**
Mandatory cash balances with National Bank of Georgia	316,061	-	-	**316,061**
Loans and advances to customers	2,273,550	36,917	59,733	**2,370,200**
Investment securities available for sale	404,577	3,156	-	**407,733**
Investments in leases	26,377	-	-	**26,377**
Other financial assets	25,262	39	-	**25,301**
Total financial assets	**3,290,904**	**202,088**	**80,809**	**3,573,801**
Non-financial assets	**324,112**	**52**	**1,729**	**325,893**
Total assets	**3,615,016**	**202,140**	**82,538**	**3,899,694**
Liabilities				
Due to credit institutions	128,610	445,140	53,373	**627,123**
Customer accounts	2,245,785	239,433	1,726	**2,486,944**
Other financial liabilities	18,679	297	486	**19,462**
Subordinated debt	-	115,080	-	**115,080**
Total financial liabilities	**2,393,074**	**799,950**	**55,585**	**3,248,609**
Non-financial liabilities	**45,666**	**112**	**1,283**	**47,061**
Total liabilities	**2,438,740**	**800,062**	**56,868**	**3,295,670**
Net balance sheet position	**1,176,276**	**(597,922)**	**25,670**	**604,024**
Performance guarantees	**157,795**	**-**	**-**	**157,795**
Credit related commitments	**380,442**	**-**	**-**	**380,442**

Market risk. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance-sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As at 31 December 2014, the Bank maintained an aggregate open currency position of 3.1% of regulatory capital (2013: 0.79%; 2012: negative 4.3%). The Asset/Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

34 Financial and Other Risk Management (Continued)

The Bank has in place Market Risk Management Policy, market risk management procedure and relevant methodologies which are updated annually in order to further increase effectiveness of currency risk management.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. Gross amount of currency swap deposits is included in Derivatives. Therefore Total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented:

	At 31 December 2014			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	1,979,583	1,336,626	55,335	**698,292**
US Dollars	2,704,810	2,573,475	(193,200)	**(61,865)**
Euros	262,113	376,934	117,668	**2,847**
Other	72,543	34,414	18,313	**56,442**
Total	**5,019,049**	**4,321,449**	**(1,884)**	**695,716**

	At 31 December 2013				At 31 December 2012			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	1,438,492	994,150	(31,569)	**412,773**	1,088,821	809,165	20,139	**299,795**
US Dollars	2,374,574	2,333,144	(60,192)	**(18,762)**	2,153,303	2,133,821	(14,891)	**4,591**
Euros	217,267	294,734	76,450	**(1,017)**	277,692	272,759	(4,802)	**131**
Other	38,917	28,259	16,532	**27,190**	54,119	32,864	-	**21,255**
Total	**4,069,250**	**3,650,287**	**1,221**	**420,184**	**3,573,935**	**3,248,609**	**446**	**325,772**

To assess currency risk the Bank performs value-at-risk ("VAR") sensitivity analysis on a quarterly basis. The analysis calculates the effect on the income of the Group of possible worst movement of currency rates against Georgian Lari, with all other variables held constant. To identify maximum expected losses associated with currency fluctuations, 99% confidence level is defined based on monthly changes in exchange rates over the 3 years look-back period. During the years ended 31 December 2014, 2013 and 2012, sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	**As at 31 December 2014**	**As at 31 December 2013**	**As at 31 December 2012**
Maximum loss (VAR, 99% confidence level)	(2,572)	(589)	(183)
Maximum loss (VAR,95% confidence level)	(1,886)	(413)	(130)

Interest rate risk. Interest rate risk arises from potential changes in market interest rates that can adversely affect the fair value or future cash flows of the financial instrument. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

34 Financial and Other Risk Management (Continued)

The deposits and the largest part of loans offered by the Bank are at fixed interest rates, while a portion of the Bank's borrowings is based on a floating rate of interest. The Bank's floating rate borrowings are, to a certain extent, hedged by the NBG paying a floating rate on the minimum reserves that the Bank holds with the NBG. The Bank has also entered into interest rate swap agreements in order to mitigate interest rate risk, analyses of derivative financial instruments is given in Note 39. Furthermore, vast majority of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. Management also believes that the Bank's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movement.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at amounts monitored by the management, categorised by the earlier of contractual interest re-pricing or maturity dates. Currency swaps are not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or other financial risk management tables.

In thousands of GEL	**Less than 1 year**	**More than 1 year**	**Total**
31 December 2014			
Total financial assets	2,238,703	2,808,079	**5,046,782**
Total financial liabilities	2,763,543	1,584,484	**4,348,027**
Net interest sensitivity gap at 31 December 2014	**(524,840)**	**1,223,595**	**698,755**
31 December 2013			
Total financial assets	2,001,124	2,102,561	**4,103,685**
Total financial liabilities	2,364,190	1,317,960	**3,682,150**
Net interest sensitivity gap at 31 December 2013	**(363,066)**	**784,601**	**421,535**
31 December 2012			
Total financial assets	1,917,616	1,715,962	**3,633,578**
Total financial liabilities	2,256,548	1,051,705	**3,308,253**
Net interest sensitivity gap at 31 December 2012	**(338,932)**	**664,257**	**325,325**

At 31 December 2014, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 2,600 thousand (2013: GEL 1,800 thousand; 2012 GEL 1,695 thousand;) higher, mainly as a result of lower interest expense on variable interest liabilities. Other comprehensive income would have been GEL 5,482 thousand (2013: GEL 5,093 thousand, 2012: GEL 4,951 thousand) higher, as a result of an increase in the fair value of fixed rate financial assets classified as available for sale and repurchase receivables.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 2,600 thousand (2013: GEL 1,800 thousand 2012: GEL 1,695 thousand;) lower, mainly as a result of higher interest expense on variable interest liabilities. Other comprehensive income would have been GEL 5,278 thousand (2013: GEL 4,786 thousand, 2012: GEL 4,926 thousand) lower, as a result of decrease in the fair value of fixed rate financial assets classified as available for sale.

For the management of interest rate risk on a standalone basis, the Bank has introduced an advanced model developed with the assistance of Ernst & Young LLC. The interest rate risk analysis is performed by Financial Risk Management Department monthly.

The Bank calculates impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios.

34 Financial and Other Risk Management (Continued)

In order to manage Interest Rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and Supervisory Board Risk, Ethics and Compliance Committee.

Liquidity Risk. Liquidity risk is the risk that TBC either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. Liquidity risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

The principal objectives of the TBC Bank's liquidity risk management policy are to: (i) ensure the availability of funds in order to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price; (ii) recognise any structural mismatch existing within TBC Bank's statement of financial position and set monitoring ratios to manage funding in line with well-balanced growth; and (iii) monitor liquidity and funding on an ongoing basis to ensure that approved business targets are met without compromising the risk profile of the Bank.

Liquidity risk is categorised into two risk types: funding liquidity risk and market liquidity risk.

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank uses Liquidity Coverage ratio and Net Stable Funding ratio set forth under Basel III, as well as minimum liquidity ratio defined by the NBG. In addition the Bank performs stress tests, what if and scenarios analysis.

The Liquidity Coverage ratio is used to help manage short-term liquidity risks. The Bank's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time bands and ensure that liquidity coverage ratio limits are put in place. TBC Bank also stress tests the results of liquidity through large shock scenarios set by the NBG. TBC Bank calculates its internal liquidity coverage ratio and conducts stress tests on a weekly basis.

The Net Stable Funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC to rely on more stable sources of funding on a continuing basis. TBC Bank also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio.

Net Stable Funding ratio is calculated based on the IFRS consolidated financial statements. In addition, for internal purposes TBC Bank calculates NSFR ratio on the basis of standalone financial statements prepared in accordance with the NBG accounting rules.

Calculation of the NSFR as at 31 December 2014, 2013 and 2012 is summarized in the table below.

34 Financial and Other Risk Management (Continued)

		As at 31 December		
		2014	2013	2012
Net Stable Funding Ratio		**114.6%**	**118.6%**	**121.6%**
In thousands of GEL	**Factor**		**Amount**	
Available stable funding		**4,135,922**	**3,410,696**	**2,952,368**
Capital: Tier 1 & Tier 2 Capital Instruments		**1,188,187**	**898,278**	**737,179**
Tier 1	100%	967,495	675,723	559,359
Tier 2	100%	220,692	222,555	177,820
Long Term Funding (year >= 1)		**489,933**	**387,814**	**358,006**
Long Term Borrowings (>=1 year)	100%	388,378	319,244	284,372
Subordinated debt not included in Tier 2	100%	62,043	34,314	13,120
Other funding (>=1 year)	100%	39,512	34,256	60,514
Other Funding		**2,457,802**	**2,124,604**	**1,857,183**
Total Corporate deposits	50%	416,277	409,769	401,239
Total SME deposits	80%	410,160	365,335	229,866
Total Retail deposits	80%	1,581,739	1,288,541	1,117,706
Short term Borrowings with remaining maturity (<1year)	50%	47,674	59,635	107,259
Subordinated Debt (<1 year)	50%	1,952	1,324	1,113
Required amount of stable funding		**3,610,370**	**2,874,587**	**2,427,415**
Long term Assets with remaining maturity >=1 year		**2,892,927**	**2,293,969**	**1,884,688**
Reserves in NGB (Stable part)	100%	332,363	273,267	256,157
Loans (>=1 year)	100%	2,268,629	1,775,280	1,401,093
Fixed and Intangible Assets(>=1 year)	100%	246,448	223,159	211,373
Other assets (>=1 year)	100%	22,506	22,263	16,065
Financial lease receivables (>1 year)	100%	22,981	-	-
Short term Assets with remaining maturity <1 year		**682,580**	**551,225**	**515,816**
Loans (<= 1 year)	50%	668,617	551,225	515,816
Financial lease receivables (<=1 year)	50%	13,963	-	-
Undrawn amount of committed credit and liquidity facilities		**34,863**	**29,393**	**26,911**
Unused credit lines and undisbursed amounts from loans	5%	14,214	9,890	8,979
Guarantees	5%	20,649	19,503	17,932

Management believes that strong and diversified funding structure is one of TBC's differentiators. TBC relies on relatively stable deposits from Georgia as the main source of funding. In order to maintain and further enhance liability structure TBC sets the targets for retail deposits in its strategy and sets the loan to deposit ratio limits.

Loan to deposit ratio was at 111.6%, 102.5% and 102.0%, at the 31 December 2014, 2013 and 2012 respectively.

34 Financial and Other Risk Management (Continued)

Market liquidity risk is the risk that TBC cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption. To manage market liquidity risk, TBC Bank follows Basel III guidelines on high-quality liquidity asset eligibility to ensure that the Bank's high-quality liquid assets can be sold without causing a significant movement in the price and with minimum loss of value.

In addition, TBC Bank has a ***liquidity contingency plan***, which forms part of the TBC's overall prudential liquidity policy and is designed to ensure that TBC is able to meet its funding and liquidity requirements and maintain its core business operations in deteriorating liquidity conditions that could arise outside the ordinary course of its business. The plan is updated once a year. Last time it was updated in January 2013.

The Bank calculates liquidity ratio on a daily basis in accordance with the requirements of the NBG. The limit is defined by the NBG for average liquidity ratio, which is calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions and part of off-balance sheet liabilities with residual maturity up to 6 months. As at 31 December the ratios were well above the prudential limit set by the NBG as follows:

	2014	**2013**	**2012**
Average Liquidity Ratio	31.1%	34.0%	36.6%

According to daily cash flow forecasts, and the surplus in liquidity standing, Treasury Department places funds in short-term liquid assets , largely made up of short-term risk-free securities, interbank deposits and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

Maturity analysis. The table below summarizes the maturity analysis of the Group’s financial liabilities as at 31 December 2014 based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group’s deposit retention history.

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

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to Credit institutions	287,557	102,151	377,385	44,602	**811,695**
Customer accounts – individuals	1,027,688	737,972	250,916	24,333	**2,040,909**
Customer accounts – other	1,115,065	98,241	113,422	35,865	**1,362,593**
Other financial liabilities	39,934	1,300	112	-	**41,346**
Subordinated debt	1,176	19,430	178,206	70,795	**269,607**
Debt securities in issue	78	236	22,008	-	**22,322**
Gross settled forwards	190,644	60,213	-	-	**250,857**
Performance guarantees	27,214	53,553	114,531	517	**195,815**
Financial guarantees	119,510	91,717	28,024	-	**239,251**
Other credit related commitments	284,284	-	-	-	**284,284**
Total potential future payments for financial obligations	**3,093,150**	**1,164,813**	**1,084,604**	**176,112**	**5,518,679**

34 Financial and Other Risk Management (Continued)

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

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	158,525	103,522	313,213	42,715	**617,975**
Customer accounts – individuals	917,166	595,740	129,487	13,071	**1,655,464**
Customer accounts – other	988,285	171,952	37,431	86,251	**1,283,919**
Other financial liabilities	23,717	1,133	-	-	**24,850**
Subordinated debt	906	15,418	160,948	76,045	**253,317**
Gross settled forwards	123,799	298	-	-	**124,097**
Performance guarantees	33,582	73,558	54,986	1,741	**163,867**
Financial guarantees	115,453	97,122	21,702	-	**234,277**
Other credit related commitments	197,801	-	-	-	**197,801**
Total potential future payments for financial obligations	**2,559,234**	**1,058,743**	**717,767**	**219,823**	**4,555,567**

The maturity analysis of financial liabilities at 31 December 2012 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	222,660	98,844	309,509	53,391	**684,404**
Customer accounts – individuals	679,547	583,177	193,330	9,212	**1,465,266**
Customer accounts – other	753,368	142,647	173,640	19,854	**1,089,509**
Other financial liabilities	19,353	109	-	-	**19,462**
Subordinated debt	862	10,998	92,189	78,303	**182,352**
Gross settled forwards	63,094	8,075	-	-	**71,169**
Performance guarantees	47,431	99,154	59,962	-	**206,547**
Financial guarantees	35,482	55,248	28,991	45,865	**165,586**
Other credit related commitments	179,589	-	-	-	**179,589**
Total potential future payments for financial obligations	**2,001,386**	**998,252**	**857,621**	**206,625**	**4,063,884**

The undiscounted financial liability analysis gap does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term Deposits included in customer accounts are classified based on remaining contractual maturities, although, in accordance with the Georgian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon demand of a depositor. Based on Bank's deposit retention history, the Management does not expect that many customers will require repayment on the earliest possible date; accordingly, the table does not reflect Management's expectations as to actual cash outflows.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

34 Financial and Other Risk Management (Continued)

The expected gap may be summarised as follows at 31 December 2014:

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	532,118	-	-	**532,118**
Due from other banks	14	29,179	4,511	**33,704**
Mandatory cash balances with National Bank of Georgia	336,075	-	-	**336,075**
Loans and advances to customers	534,371	770,034	2,252,091	**3,556,496**
Investment securities available for sale	466,510	-	-	**466,510**
Finance lease receivables	10,300	17,627	22,980	**50,907**
Other financial assets	20,280	5,965	17,612	**43,857**
Total financial assets	**1,899,668**	**822,805**	**2,297,194**	**5,019,667**
Liabilities				
Due to Credit institutions	285,677	82,439	381,169	**749,285**
Customer accounts	279,084	-	3,043,344	**3,322,428**
Debt securities in issue	-	-	20,423	**20,423**
Other financial liabilities	39,934	1,300	112	**41,346**
Subordinated debt	1,098	2,805	184,112	**188,015**
Total financial liabilities	**605,793**	**86,544**	**3,629,160**	**4,321,497**
Credit related commitments and performance guarantees				
Performance guarantees	4,912	**-**	**-**	**4,912**
Financial guarantees	3,266	-	-	**3,266**
Other credit related commitments	36,644	**-**	**-**	**36,644**
		-	-	
Credit related commitments and performance guarantees	**44,822**	**0**	**0**	**44,822**
Net liquidity gap at 31 December 2014	**1,249,053**	**736,261**	**(1,331,966)**	**653,348**
Cumulative gap at 31 December 2014	**1,249,053**	**1,985,314**	**653,348**	

Management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.

34 Financial and Other Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2013:

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**Over 1 year**	**Total**
Assets				
Cash and cash equivalents	390,465	-	-	**390,465**
Due from other banks	93	-	1,615	**1,708**
Mandatory cash balances with National Bank of Georgia	295,332	-	-	**295,332**
Loans and advances to customers	445,069	623,376	1,733,267	**2,801,712**
Investment securities available for sale	500,651	-	-	**500,651**
Finance lease receivables	7,148	11,593	16,872	**35,613**
Other financial assets	22,103	5,024	17,922	**45,049**
Total financial assets	**1,660,861**	**639,993**	**1,769,676**	**4,070,530**
Liabilities				
Due to Credit institutions	156,545	90,018	319,243	**565,806**
Customer accounts	261,546	-	2,625,337	**2,886,883**
Debt securities in issue	-	4,474	-	**4,474**
Other financial liabilities	23,717	1,133	-	**24,850**
Subordinated debt	833	1,814	165,627	**168,274**
Total financial liabilities	**442,641**	**97,439**	**3,110,207**	**3,650,287**
Credit related commitments and performance guarantees				
Performance guarantees	4,153	-	-	**4,153**
Financial guarantees	4,927	-	-	**4,927**
Other credit related commitments	34,962	-	-	**34,962**
Credit related commitments and performance guarantees	**44,042**	-	-	**44,042**
Net liquidity gap at 31 December 2013	**1,174,178**	**542,554**	**(1,340,531)**	**376,201**
Cumulative gap at 31 December 2013	**1,174,178**	**1,716,732**	**376,201**	

34 Financial and Other Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2012:

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	398,587	-	-	**398,587**
Due from other banks	1,378	28,164	-	**29,542**
Mandatory cash balances with National Bank of Georgia	316,061	-	-	**316,061**
Loans and advances to customers	442,312	560,935	1,366,953	**2,370,200**
Investment securities available for sale	407,733	-	-	**407,733**
Finance lease receivables	4,799	9,127	12,451	**26,377**
Other financial assets	8,973	2,989	13,339	**25,301**
Total financial assets	**1,579,843**	**601,215**	**1,392,743**	**3,573,801**
Liabilities				
Due to Credit institutions	219,787	83,007	324,329	**627,123**
Customer accounts	310,867	87,043	2,089,034	**2,486,944**
Other financial liabilities	19,353	109	-	**19,462**
Subordinated debt	793	1,434	112,853	**115,080**
Total financial liabilities	**550,800**	**171,593**	**2,526,216**	**3,248,609**
Credit related commitments and performance guarantees				
Performance guarantees	2,332	**-**	**-**	**2,332**
Financial guarantees	842	**-**	**-**	**842**
Other credit related commitments	33,601	**-**	**-**	**33,601**
Credit related commitments and performance guarantees	**36,775**	**-**	**-**	**36,775**
Net liquidity gap at 31 December 2012	**992,268**	**429,622**	**(1,133,473)**	**288,417**
Cumulative gap at 31 December 2012	**992,268**	**1,421,890**	**288,417**	

In order to assess the possible outflow of the bank's customer accounts management applied value-at-risk analysis. The statistical data was used on the basis of a holding period of one month for a look-back period of five years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: (0-3 months) and (0-12 months), based on which the maximum percentage of deposits' outflow was calculated.

Management believes that in spite of a substantial portion of customers' accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Moreover, the Group's liquidity risk management includes estimation of maturities for its current deposits. The estimation is based on statistical methods applied to historic information on fluctuations of customer account balances.

Operating environment. Most of the Group's business in concentrated in Georgia. Emerging economies, such as the Georgian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has changed number of civil, criminal, tax, administrative and commercial laws that have positively affected the overall investment climate of the country. Georgia has an international reputation as a country with a favorable investment environment. For example, in the "Doing Business 2015: Understanding Regulations for Small and Medium-Size Enterprises" report published by the IFC and the World Bank, Georgia was ranked as the fifteenth (out of 189) easiest country in the world in which to do business, ahead of all its neighboring countries and many EU Member States. Moreover, according to the World Bank & IFC Doing Business Report 2015, Georgia was ranked as the number one in the world in terms of registering property. Georgia is also acknowledged to have low corruption levels as demonstrated by the Transparency International 2013 Global Corruption Barometer.

35 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the NBG (ii) to safeguard the Group's ability to continue as a going concern and (iii) to comply with Basel Capital Accord 1988 capital adequacy ratios as stipulated by borrowing agreements. Compliance with capital adequacy ratios set by the NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's CFO and Deputy CFO.

Bank and the Group complied with all its internally and externally imposed capital requirements throughout 2012, 2013 and 2014.

NBG Capital adequacy ratio

Under the current capital requirements set by NBG banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the set 12% minimum level and a ratio of Tier 1 capital to risk weighted assets above the set 8% minimum level. In a non-binding letter NBG disclosed intention to introduce additional buffer of 3% over any minimum in the current NBG total capital requirements as calculated in accordance with both current NBG and NBG Basel II Pillar 1 guidelines. Regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

In thousands of GEL	**2014**	**2013**	**2012**
Share capital	433,521	261,045	251,785
Retained earnings and other disclosed reserves	402,793	290,585	253,057
General loan loss provisions (up to 1.25 % of risk – weighted assets)	64,627	51,038	44,224
Less intangible assets	(26,123)	(18,197)	(14,048)
Less Investments into subsidiary companies and capital of other banks	(117,962)	(59,129)	(68,615)
Subordinated debt (included in regulatory capital)	116,068	131,312	99,733
Total regulatory capital	**872,924**	**656,654**	**566,136**
Risk-weighted Exposures			
Credit risk weighted assets (including off-balance obligations)	4,125,740	3,340,518	3,030,372
Currency Induced Credit Risk	1,525,435	1,321,561	1,232,923
minus general and special reserves	(155,192)	(166,377)	(137,411)
Risk-weighted assets	**5,495,983**	**4,495,702**	**4,125,884**
Tier 1 Capital adequacy ratio	**12,2%**	**10,6%**	**11,2%**
Total Capital adequacy ratio	**15,9%**	**14,6%**	**13,7%**

35 Management of Capital (Continued)

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of the end of 2014, 2013, 2012 are given in the tables below:

In thousands of GEL	**2014**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	1,426,453	257,522
Gross Loans and accrued interests	3,353,985	4,668,750
Repossessed Assets	67,381	67,381
Fixed Assets and intangible assets	201,721	175,598
Other assets	198,146	112,829
Total	**5,247,686**	**5,282,080**
Total Off-balance	**868,270**	**369,095**
minus general and special reserves	(155,192)	(155,192)
Total Amount	**5,960,764**	**5,495,983**

In thousands of GEL	**2013**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	1,170,286	158,730
Gross Loans and accrued interests	2,713,271	3,829,318
Repossessed Assets	69,143	69,143
Fixed Assets and intangible assets	202,902	184,705
Other assets	143,487	92,255
Total	**4,299,089**	**4,334,151**
Total Off-balance	**615,670**	**327,928**
minus general and special reserves	(166,377)	(166,377)
Total Amount	**4,748,382**	**4,495,702**

In thousands of GEL	**2012**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	1,166,966	180,826
Gross Loans and accrued interests	2,323,789	3,433,936
Repossessed Assets	28,010	28,010
Fixed Assets and intangible assets	198,550	184,502
Other assets	152,965	93,105
Total	**3,870,280**	**3,920,379**
Total Off-balance	**555,768**	**342,916**
minus general and special reserves	(137,411)	(137,411)
Total Amount	**4,288,637**	**4,125,884**

35 Management of Capital (Continued)

NBG Basel II Capital adequacy ratio

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

In thousands of GEL	2014	2013	2012
Tier 1 Capital	783,360	526,224	467,509
Tier 2 Capital	163,505	177,950	138,957
Regulatory capital	**946,865**	**704,174**	**606,466**
Risk-weighted Exposures			
Credit Risk Weighted Exposures	5,879,120	4,553,155	4,093,417
Risk Weighted Exposures for Market Risk	27,186	3,946	18,635
Risk Weighted Exposures for Operational Risk	390,378	343,892	343,018
Total Risk-weighted Exposures	**6,296,684**	**4,900,993**	**4,455,070**
Minimum Tier 1 ratio	**8.5%**	**8.5%**	**8.5%**
Tier 1 Capital adequacy ratio	**12.4%**	**10.7%**	**10.5%**
Minimum total capital adequacy ratio	**10.5%**	**10.5%**	**10.5%**
Total Capital adequacy ratio	**15.0%**	**14.4%**	**13.6%**

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of the 31 December 2014, 2013 and 2012 are given in the tables below:

	2014	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	1,524,235	682,162
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	3,254,912	4,330,991
Repossessed Assets	67,381	67,381
Fixed Assets and intangible assets	227,843	187,918
Other assets	199,439	307,609
minus general provision, penalty and interest provision	(48,030)	(48,030)
Total	**5,225,780**	**5,528,031**
Total Off-balance	**934,174**	**351,089**
Market Risk	**27,186**	**27,186**
Operational Risk	**273,265**	**390,378**
Total Amount	**6,460,405**	**6,296,684**

	2013	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	1,253,675	467,647
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	2,619,707	3,321,301
Repossessed Assets	69,143	69,143
Fixed Assets and intangible assets	202,902	203,833
Other assets	153,663	214,198
minus general provision, penalty and interest provision	(41,837)	(41,837)
Total	**4,257,253**	**4,234,285**
Total Off-balance	**678,453**	**318,870**
Market Risk	**5,180**	**3,946**
Operational Risk	**240,724**	**343,892**
Total Amount	**5,181,610**	**4,900,993**

35 Management of Capital (Continued)

	2012	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	1,187,804	372,002
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	2,299,656	3,041,501
Repossessed Assets	28,010	28,010
Fixed Assets and intangible assets	198,550	207,791
Other assets	156,259	192,909
minus general provision, penalty and interest provision	(20,128)	(20,128)
Total	**3,850,151**	**3,822,085**
Total Off-balance	617,134	271,332
Market Risk	24,459	18,635
Operational Risk	240,112	343,018
Total Amount	**4,731,856**	**4,455,070**

Capital adequacy ratio under Basel Capital Accord 1988

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

In thousands of GEL	**2014**	**2013**	**2012**
Tier 1 capital			
Share capital	425,234	259,123	247,644
Retained earnings and disclosed reserves	537,616	404,659	303,022
Less: Goodwill	(2,726)	(2,726)	(2,726)
Non-controlling interest	7,371	14,667	11,419
Total tier 1 capital	**967,495**	**675,723**	**559,359**
Tier 2 capital			
Revaluation reserves	49,255	50,840	41,939
General Reserve	49,367	40,403	36,148
Subordinated debt (included in tier 2 capital)	122,070	131,312	99,733
Total tier 2 capital	**220,692**	**222,555**	**177,820**
Total capital	**1,188,187**	**898,278**	**737,179**
Credit risk weighted assets (including off-balance obligations)	3,949,360	3,232,229	2,891,766
Less: General Reserve	(100,397)	(116,466)	(130,350)
Market Risk	61,864	19,779	25,977
Total Risk-weighted assets	**3,910,827**	**3,135,542**	**2,787,393**
Minimum Tier 1 ratio	**4.0%**	**4.0%**	**4.0%**
Tier 1 Capital adequacy ratio	**24.7%**	**21.6%**	**20.1%**
Minimum total capital adequacy ratio	**8.0%**	**8.0%**	**8.0%**
Total Capital adequacy ratio	**30.4%**	**28.6%**	**26.4%**

Following Basel I guidelines General Reserve is defined by the management as the minimum among the following:
a) IFRS provisions created on loans without impairment trigger event
b) 2% of loans without impairment trigger event
c) 1.25% of total RWA (Risk Weighted Assets)

35 Management of Capital (Continued)

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of the end of 2014, 2013, 2012 are given in the tables below:

In thousands of GEL	2014	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,368,407	63,462
Gross loans and accrued interests	3,706,260	3,035,718
Repossessed assets	60,480	60,480
Fixed assets and intangible assets	249,174	246,448
Other assets	188,909	188,909
Total	**5,573,230**	**3,595,017**
Total Off-balance	**1,028,774**	**354,343**
Less: Loan loss provision minus General Reserve	(100,397)	(100,397)
Market Risk	**61,864**	**61,864**
Total Amount	**6,563,471**	**3,910,827**

In thousands of GEL	2013	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,188,156	38,613
Gross loans and accrued interests	2,958,581	2,419,822
Repossessed assets	49,920	49,920
Fixed assets and intangible assets	225,885	223,159
Other assets	185,402	185,402
Total	**4,607,944**	**2,916,916**
Total Off-balance	**656,386**	**315,313**
Less: Loan loss provision minus General Reserve	(116,466)	(116,466)
Market Risk	**19,779**	**19,779**
Total Amount	**5,167,643**	**3,135,542**

In thousands of GEL	2012	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,151,923	48,388
Gross loans and accrued interests	2,536,698	2,145,081
Repossessed assets	56,316	56,316
Fixed assets and intangible assets	214,099	211,374
Other assets	107,156	107,156
Total	**4,066,192**	**2,568,315**
Total Off-balance	**622,791**	**323,451**
Less: Loan loss provision minus General Reserve	(130,350)	(130,350)
Market Risk	**25,977**	**25,977**
Total Amount	**4,584,610**	**2,787,393**

36 Contingencies and Commitments

Legal proceedings. The Bank is a defendant in a number of legal claims. When determining the level of provision to be set up in respect of such claims, management uses both internal and external professional advice. The management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the period of review. To respond to the risks, the Group has engaged external tax specialists who are performing periodic reviews of Group's taxation policies and tax filings. The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and customs positions will be sustained. Accordingly, as at 31 December 2014, 2013 and 2012 no provision for potential tax liabilities has been recorded.

Operating lease commitments. Where the Group is the lessee, as at 31 December 2014, the future minimum lease payments under non-cancellable operating leases over the next year amount to GEL 4,766 thousand (31 December 2013: 4,063 thousand, 31 December 2012: 1,675 thousand).

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 31 December 2014, 2013 and 2012.

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

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

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

36 Contingencies and Commitments (Continued)

Outstanding credit related commitments and performance guarantees are as follows:

In thousands of GEL	2014	2013	2012
Performance guarantees issued	188,440	160,704	160,127
Financial guarantees issued	86,770	95,762	112,997
Undrawn credit lines	284,284	197,801	179,589
Letters of credit	145,958	133,603	88,698
Total credit related commitments and performance guarantees (before provision)	**705,452**	**587,870**	**541,411**
Provision for performance guarantees	(4,912)	(4,153)	(2,332)
Provision for credit related commitments and financial guarantees	(3,266)	(4,927)	(842)
Total credit related commitments and performance guarantees	**697,274**	**578,790**	**538,237**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as at 31 December 2014 composed GEL 138,296 thousand (2013: GEL 131,342 thousand; 2012 GEL 124,448 thousand).

Fair value of credit related commitments and financial guarantees as well as performance guarantees were GEL 8,179 thousand at 31 December 2014 (2013: GEL 9,080 thousand; 2012: GEL 3,174 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

In thousands of GEL	2014	2013	2012
Georgian Lari	254,554	218,553	194,178
US Dollars	377,964	299,190	279,563
Euro	46,057	42,388	36,431
Other	26,877	27,739	31,239
Total	**705,452**	**587,870**	**541,411**

Capital expenditure commitments. At 31 December 2014, the Group has contractual capital expenditure commitments amounting to GEL 511 thousand (2013: 2,365 thousand; 2012: nil).

37 Non-Controlling Interest

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2014:

In thousands of GEL	Place of business (and country of incorpo-ration if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit attribu-table to non-controlling interest	Accumu-lated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Leasing JSC	Georgia	0.52%	0.52%	6	38	-
TBC Kredit LLC	Azerbaijan	25%	25%	970	7,006	-
United Financial Corporation JSC	Georgia	1.33%	1.33%	24	327	-
Total				**1,000**	**7,371**	**-**

37 Non-Controlling Interest (Continued)

The summarised financial information of these subsidiaries was as follows at 31 December 2014:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total compre-hensive income	Cash flows
TBC Leasing JSC	43,541	29,236	20,625	44,710	6,130	1,204	1,204	(2,745)
TBC Kredit LLC	45,238	45,927	11,949	47,743	12,881	3,880	3,880	590
United Financial Corporation JSC	2,846	4,772	431	487	9,212	1,792	1,792	432
Total	**91,625**	**79,935**	**33,005**	**92,940**	**28,223**	**6,876**	**6,876**	**(1,723)**

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2013:

In thousands of GEL	Place of business (and country of incorpo-ration if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit attribu-table to non-controlling interest	Accumu-lated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Leasing JSC	Georgia	10.47%	10.47%	60	624	-
TBC Kredit LLC	Azerbaijan	25.00%	25.00%	833	6,036	-
United Financial Corporation JSC	Georgia	6.68%	6.68%	35	303	-
Bank Constanta JSC	Georgia	16.15%	16.15%	1,726	7,704	-
Total				**2,654**	**14,667**	**-**

The summarised financial information of these subsidiaries was as follows at 31 December 2013:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total compre-hensive income	Cash flows
TBC Leasing JSC	33,570	24,212	27,160	24,664	3,767	573	573	996
TBC Kredit LLC	41,867	31,814	26,024	22,150	11,291	3,334	3,334	1,120
United Financial Corporation JSC	1,529	4,712	1,046	286	6,758	522	522	71
Bank Constanta JSC	195,077	150,631	134,591	160,989	55,972	11,271	11,271	2,362
Total	**272,043**	**211,369**	**188,821**	**208,089**	**77,788**	**15,700**	**15,700**	**4,549**

37 Non-Controlling Interest (Continued)

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2012:

In thousands of GEL	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Leasing JSC	Georgia	10.47%	10.47%	17	564	-
TBC Kredit LLC	Azerbaijan	25.00%	25.00%	509	5,203	-
United Financial Corporation JSC	Georgia	6.68%	6.68%	58	267	-
Bank Constanta JSC	Georgia	16.15%	16.15%	708	5,385	-
Total				**1,292**	**11,419**	-

The summarised financial information of these subsidiaries was as follows at 31 December 2012:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
TBC Leasing JSC	24,491	15,439	14,821	19,725	5,766	220	220	2,541
TBC Kredit LLC	34,300	27,919	8,511	32,704	9,239	2,037	2,037	(3,665)
United Financial Corporation JSC	1,161	4,845	1,269	350	5,092	871	871	309
Bank Constanta JSC	159,916	84,573	93,123	116,634	39,195	4,295	4,295	9,441
Total	**219,868**	**132,776**	**117,724**	**169,413**	**59,292**	**7,423**	**7,423**	**8,626**

38 Offsetting Financial Assets and Financial Liabilities

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

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instru-ments (d)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Cash collateral received (e)	Net amount of exposure (c) - (d) - (e)
ASSETS						
Cash and Cash Equivalents						
- Placements with other banks with original maturities of less than three months	117,594	26,561	91,033	-	-	91,033
Other financial assets:						
- Receivables on credit card services and money transfers	11,399	1,959	9,440	-	-	9,440
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**128,993**	**28,520**	**100,473**	**-**	**-**	**100,473**
LIABILITIES						
Due to credit institutions	775,846	26,561	749,285	-	-	749,285
Other financial liabilities	43,305	1,959	41,346	-	-	41,346
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**819,151**	**28,520**	**790,631**	**-**	**-**	**790,631**

38 Offsetting Financial Assets and Financial Liabilities (Continued)

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

In thousands of GEL	**Gross amounts before offsetting in the statement of financial position (a)**	**Gross amounts set off in the statement of financial position (b)**	**Net amount after offsetting in the statement of financial position (c) = (a) - (b)**	**Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instru-ments (d)**	**Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Cash collateral received (e)**	**Net amount of exposure (c) - (d) - (e)**
ASSETS						
Cash and Cash Equivalents						
- Placements with other banks with original maturities of less than three months	115,901	31,871	84,030	-	-	84,030
Other financial assets:						
- Receivables on credit card services and money transfers	7,481	924	6,557	-	-	6,557
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**123,382**	**32,795**	**90,587**	**-**	**-**	**90,587**
LIABILITIES						
Due to credit institutions	597,677	31,871	565,806	-	-	565,806
Other financial liabilities	25,774	924	24,850	-	-	24,850
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**623,451**	**32,795**	**590,656**	**-**	**-**	**590,656**

38 Offsetting Financial Assets and Financial Liabilities (Continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2012:

In thousands of GEL	**Gross amounts before offsetting in the statement of financial position (a)**	**Gross amounts set off in the statement of financial position (b)**	**Net amount after offsetting in the statement of financial position (c) = (a) - (b)**	**Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instru-ments (d)**	**Cash collateral received (e)**	**Net amount of exposure (c) - (d) - (e)**
ASSETS						
Cash and Cash Equivalents						
- Placements with other banks with original maturities of less than three months	78,320	54,671	23,649	-	-	23,649
Other financial assets:						
- Receivables on credit card services and money transfers	4,436	1,087	3,349	-	-	3,349
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**82,756**	**55,758**	**26,998**	**-**	**-**	**26,998**
LIABILITIES						
Due to credit institutions	681,794	54,671	627,123	-	-	627,123
Other financial liabilities	20,549	1,087	19,462	-	-	19,462
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**702,343**	**55,758**	**646,585**	**-**	**-**	**646,585**

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

Deposits placed with other banks and deposits received from other banks as part of gross settled currency swap arrangement have been netted-off in these financial statements and the instrument has been presented as either asset or a liability at fair value.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are netted-off in the statement of financial position.

39 Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

In thousands of GEL	2014	2013	2012
Fair value of gross settled currency swaps, included in other financial assets or due from banks	618	1,221	446
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	(2,502)	-	-
Fair value of Interest rate swaps, included in other financial liabilities	(3,137)	(4,405)	(7,139)
Total	**(5,021)**	**(3,184)**	**(6,693)**

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

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

	2014		2013		2012	
In thousands of GEL	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and gross settled currency swaps: fair values, at the balance sheet date, of						
- USD payable on settlement (-)	-	(222,231)	-	(91,590)	-	(36,428)
- USD receivable on settlement (+)	29,031	-	31,398	-	26,507	-
- GEL payable on settlement (-)	-	(26,530)	-	-	-	(26,508)
- GEL receivable on settlement (+)	81,865	-	-	(31,569)	41,676	-
- EUR payable on settlement (-)	-	(604)	-	-	-	(8,075)
- EUR receivable on settlement (+)	118,272	-	76,450	-	3,274	-
- Other payable on settlement (-)	-	(1,479)	-	(637)	-	-
- Other receivable on settlement (+)	19,792	-	17,169	-	-	-
Fair value of foreign exchange forwards and gross settled currency swaps	**248,960**	**(250,844)**	**125,017**	**(123,796)**	**71,457**	**(71,011)**
Net fair value of foreign exchange forwards and gross settled currency swaps	**-**	**(1,884)**	**1,221**	**-**	**446**	**-**

Interest rate swaps. In March 2010 TBC Bank entered into interest rate swap agreement, to hedge floating interest rate on its subordinated debt. The hedge covers payment of floating rate interest payments with the notional principal of USD 44,000 thousand. The swap expires in November 2018. At the reporting date fair value of interest rate swaps was estimated to be negative GEL 3,137 thousand (2013: negative GEL 4,405 thousand; 2012: negative GEL 7,139 thousand).

Information on related party balances is disclosed in Note 42.

40 Fair Value Disclosures

(a) Recurring fair value measurements

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

	31 December 2014				31 December 2013				31 December 2012			
In thousands of GEL	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE												
FINANCIAL ASSETS												
Investment securities available for sale												
- Government notes	-	232,934	-	**232,934**	-	173,974	-	**173,974**	-	196,004	-	**196,004**
- Certificates of Deposits of National Bank of Georgia	-	198,233	-	**198,233**	-	321,140	-	**321,140**	-	187,551	-	**187,551**
- Corporate bonds	-	25,034	-	**25,034**	-	-	-	**-**	-	-	-	**-**
- Ministry of Finance Treasury Bills	-	476	-	**476**	-	-	-	**-**	-	19,210	-	**19,210**
- Corporate shares (Visa Inc)	6,140	-	-	**6,140**	4,858	-	-	**4,858**	3,156	-	-	**3,156**
Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	-	618	-	**618**	-	1,221	-	**1,221**	-	446	-	**446**
NON-FINANCIAL ASSETS												
- Premises and leasehold improvements	-	-	132,346	**132,346**	-	-	138,939	**138,939**	-	-	130,878	**130,878**
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**6,140**	**457,295**	**132,346**	**595,781**	**4,858**	**496,335**	**138,939**	**640,132**	**3,156**	**403,211**	**130,878**	**537,245**
LIABILITIES CARRIED AT FAIR VALUE												
FINANCIAL LIABILITIES												
- Interest rate swaps included in other financial liabilities	-	3,137	-	**3,137**	-	4,405	-	**4,405**	-	7,139	-	**7,139**
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	-	2,502	-	**2,502**	-	-	-	**-**	-	-	-	**-**
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	-	**5,639**	**-**	**5,639**	-	**4,405**	**-**	**4,405**	**-**	**7,139**	**-**	**7,139**

There were no transfers between levels 1 and 2 during the year ended 31 December 2014 (2013: none, 2012: none).

40 Fair Value Disclosures (Continued)

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

	Fair value at 31 December				
In thousands of GEL	**2014**	**2013**	**2012**	**Valuation technique**	**Inputs used**
ASSETS AT FAIR VALUE					
FINANCIAL ASSETS					
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	456,677	495,114	402,765	Discounted cash flows (“DCF”)	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	618	1,221	446	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**457,295**	**496,335**	**403,211**		
LIABILITIES CARRIED AT FAIR VALUE					
FINANCIAL LIABILITIES					
Other financial liabilities					
- Interest rate swaps included in other financial liabilities	3,137	4,405	7,139	Swap model using present value calculations	Observable yield curves
- Foreign exchange forwards included in other financial liabilities	2,502	-	-	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**5,639**	**4,405**	**7,139**		

There were no changes in valuation technique for level 2 and level 3 recurring fair value measurements during the year ended 31 December 2014 (2013: none; 2012: none).

For description of the techniques and inputs used for Level 3 recurring fair value measurement of (as well as reconciliation of movements in) premises refer to Note 14. The unobservable input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value.

40 Fair Value Disclosures (Continued)

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

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

	31 December 2014				**31 December 2013**				**31 December 2012**			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Carrying Value**
FINANCIAL ASSETS												
Cash and cash equivalents	532,118	-	-	532,118	390,465	-	-	390,465	398,587	-	-	398,587
Due from other banks	33,704	-	-	33,704	1,708	-	-	1,708	29,542	-	-	29,542
Mandatory cash balances with the NBG	-	336,075	-	336,075	-	295,332	-	295,332	-	316,061	-	316,061
Loans and advances to customers:												
- Corporate loans	-	-	1,221,155	1,140,503	-	-	1,172,503	1,049,668	-	-	1,046,831	1,029,112
- Consumer loans	-	-	780,259	744,290	-	-	607,940	571,730	-	-	455,020	451,548
- Mortgage loans	-	-	729,013	707,979	-	-	519,180	491,136	-	-	375,406	372,230
- Small and micro loans	-	-	533,527	528,631	-	-	397,229	388,131	-	-	293,294	289,397
- Micro	-	-	264,303	266,091	-	-	193,784	196,395	-	-	134,010	141,570
- Others	-	-	168,231	169,002	-	-	103,896	104,652	-	-	85,449	86,343
Investments in leases	-	-	50,907	50,907	-		35,613	35,613	-	-	26,377	26,377
Other financial assets	-	-	43,239	43,239	-		43,828	43,828	-	-	24,855	24,855
NON-FINANCIAL ASSETS	-	-										
Investment properties, at cost	-	-	79,057	76,216			86,480	83,383	-	-	34,928	34,305
TOTAL ASSETS	**565,822**	**336,075**	**3,869,691**	**4,628,755**	**392,173**	**295,332**	**3,160,453**	**3,652,041**	**428,129**	**316,061**	**2,476,170**	**3,199,927**
FINANCIAL LIABILITIES												
Due to credit institutions	-	749,285	-	749,285	-	565,806	-	565,806	-	627,123	-	627,123
Customer accounts	-	1,857,089	1,483,891	3,322,428	-	1,690,812	1,206,300	2,886,883	-	1,094,556	1,392,388	2,486,944
Debt securities in issue	-	20,423	-	20,423	-	4,474	-	4,474		-	-	-
Other financial liabilities	-	35,707	-	35,707	-	20,445	-	20,445	-	12,323	-	12,323
Subordinated debt	-	188,015	-	188,015	-	168,274	-	168,274	-	115,080	-	115,080
TOTAL LIABILITIES	-	**2,850,519**	**1,483,891**	**4,315,858**	**-**	**2,449,811**	**1,206,300**	**3,645,882**	**-**	**1,849,082**	**1,392,388**	**3,241,470**

40 Fair Value Disclosures (Continued)

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

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

There were no changes in valuation technique for level 2 and level 3 measurements of assets and liabilities not measured at fair values during the year ended 31 December 2014 (2013: none; 2012: none).

41 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2014:

In thousands of GEL	**Loans and receivables**	**Available for sale assets**	**Finance lease receivables**	**Assets designated at FVTPL**	**Total**
ASSETS					
Cash and cash equivalents	-	-	-	-	**532,118**
Due from other banks	33,704	-	-	-	**33,704**
Mandatory cash balances with the National Bank of Georgia	336,075	-	-	-	**336,075**
Loans and advances to customers	3,556,496	-	-	-	**3,556,496**
Investment securities available for sale	-	466,510	-	-	**466,510**
Investments in leases	-	-	50,907	-	**50,907**
Other financial assets:					
- Other financial receivables	43,239	-	-	618	**43,857**
TOTAL FINANCIAL ASSETS	**3,969,514**	**466,510**	**50,907**	**618**	**5,019,667**
NON-FINANCIAL ASSETS	**-**	**-**	**-**	**-**	**403,799**
TOTAL ASSETS	**-**	**-**	**-**	**-**	**5,423,466**

41 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2013:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets designated at FVTPL	Total
ASSETS					
Cash and cash equivalents	-	-	-	-	**390,465**
Due from other banks	1,708	-	-	-	**1,708**
Mandatory cash balances with the National Bank of Georgia	295,332	-	-	-	**295,332**
Loans and advances to customers	2,801,712	-	-	-	**2,801,712**
Investment securities available for sale	-	500,651	-	-	**500,651**
Investments in leases	-	-	35,613	-	**35,613**
Other financial assets:					
- Other financial receivables	43,828	-	-	1,221	**45,049**
TOTAL FINANCIAL ASSETS	**3,142,580**	**500,651**	**35,613**	**1,221**	**4,070,530**
NON-FINANCIAL ASSETS	-	-	-	-	**380,545**
TOTAL ASSETS	-	-	-	-	**4,451,075**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2012:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets designated at FVTPL	Total
ASSETS					
Cash and cash equivalents	-	-	-	-	**398,587**
Due from other banks	29,407	-	-	135	**29,542**
Mandatory cash balances with the National Bank of Georgia	316,061	-	-	-	**316,061**
Loans and advances to customers	2,370,200	-	-	-	**2,370,200**
Investment securities available for sale	-	407,733	-	-	**407,733**
Investments in leases	-	-	26,377	-	**26,377**
Other financial assets:					
- Other financial receivables	24,855	-	-	446	**25,301**
TOTAL FINANCIAL ASSETS	**2,740,523**	**407,733**	**26,377**	**581**	**3,573,801**
NON-FINANCIAL ASSETS	-	-	-	-	**325,893**
TOTAL ASSETS	-	-	-	-	**3,899,694**

As at 31 December 2014, 2013 and 2012, all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

42 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Parties that hold more than 6% of ownership stake in the Bank or have their representatives in the Supervisory board are considered as Significant Shareholders. Included in key management personnel are members of the Supervisory Board, the Management Board and close members of the family.

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

In thousands of GEL	**Note**	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 7.5 - 23%)		5,383	1,315
Impairment provisions for loans and advances to customers		190	9
Derivative financial liability	39	3,137	-
Due to credit institutions (contractual interest rate: 0 - 13 %)		63,542	-
Customer accounts (contractual interest rate: 0 - 9.5 %)		5,925	7,302
Subordinated debt (contractual interest rate: 9.2 - 12 %)		102,859	-

The income and expense items with related parties except from key management compensation for the year 2014 were as follows:

In thousands of GEL	**Note**	**Significant shareholders**	**Key management personnel**
Interest income		551	114
Interest expense		15,408	350
Gains less losses from trading in foreign currencies		56	26
Foreign exchange translation gains less losses		331	51
Fee and commission income		9	10
Fee and commission expense		926	-
Administrative and other operating expenses (excluding staff costs)		70	164
Net loss on derivative financial instruments	39	(683)	-

Aggregate amounts of loans advanced to and repaid by related parties during 2014 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the year	2,074	3,042
Amounts repaid by related parties during the year	(7,501)	(3,204)

42 Related Party Transactions (Continued)

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

In thousands of GEL	**Note**	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)		9,928	1,312
Impairment provisions for loans and advances to customers		152	15
Derivative financial liability	39	4,405	-
Due to credit institutions (contractual interest rate: 0 - 13 %)		67,894	-
Customer accounts (contractual interest rate: 0 - 13 %)		5,421	4,598
Subordinated debt (contractual interest rate: 5 - 11 %)		95,458	-

The income and expense items with related parties except from key management compensation for the year 2013 were as follows:

In thousands of GEL	**Note**	**Significant shareholders**	**Key management personnel**
Interest income		1,527	159
Interest expense		14,596	352
Gains less losses from trading in foreign currencies		67	9
Foreign exchange translation (losses less gains) / gains less losses		(227)	50
Fee and commission income		10	7
Fee and commission expense		993	-
Administrative and other operating expenses (excluding staff costs)		67	205
Net gain on derivative financial instruments	39	613	-

Aggregate amounts of loans advanced to and repaid by related parties during 2013 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the year	4,246	1,751
Amounts repaid by related parties during the year	(8,756)	(2,218)

42 Related Party Transactions (Continued)

At 31 December 2012, the outstanding balances with related parties were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)		13,137	1,571	15,358
Impairment provisions for loans and advances to customers		250	19	318
Derivative financial liability	39	7,139	-	-
Due to credit institutions (contractual interest rate: 0 - 13 %)		161,767	-	-
Customer accounts (contractual interest rate: 0 - 13 %)		3,839	4,530	22,192
Subordinated debt (contractual interest rate: 5 - 11 %)		61,122	-	-

The income and expense items with related parties except from key management compensation for the year 2012 were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Interest income		1,757	261	1,644
Interest expense		16,805	386	565
Provision for loan impairment		-	-	26
Gains less losses from trading in foreign currencies		8	4	392
Foreign exchange translation (losses less gains) / gains less losses		(106)	2	926
Fee and commission income		11	5	376
Administrative and other operating expenses (excluding staff costs)		17	133	-
Net loss on derivative financial instruments	39	(3,804)	-	-

At 31 December 2012, other rights and obligations with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Guarantees issued by the Group at the year end	-	-	5,401

Aggregate amounts of loans advanced to and repaid by related parties during 2012 were:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Amounts advanced to related parties during the year	1,816	1,018	15,253
Amounts repaid by related parties during the year	(5,041)	(1,994)	(9,398)

Compensation of the key management personnel and supervisory board members is presented below:

In thousands of GEL	2014		2013		2012	
	Expense	Accrued liability	Expense	Accrued liability	Expense	Accrued liability
Salaries and bonuses	10,096	3,929	8,783	3,798	7,256	3,983
Cash settled bonuses related to share-based compensation	1,463	2,012	1,692	1,692	676	432
Equity-settled share-based compensation	2,192	-	1,671	-	2,700	-
Total	**13,751**	**5,941**	**12,146**	**5,490**	**10,632**	**4,415**

43 Events after the balance sheet date

Subsequent to 31 December 2014, the Group has completed the legal and operational process of merging JSC Bank Constanta with TBC Bank. The former operations of Bank Constanta will now be undertaken by TBC Bank as the sole legal entity.

On 27 January 2015 the Group acquired micro loans portfolio with the carrying amount of GEL 37,300 thousand from ProCredit Bank Georgia, the fifth largest bank by total assets. The consideration paid amounted to GEL 40,000 thousand.