

TBC BANK GROUP

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

**For the years ended 31 December 2013, 2012
and 2011**

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INDEPENDENT AUDITOR'S REPORT

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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 2013, 2012 and 2011 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 2013, 2012 and 2011 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

24 February 2014
Tbilisi, Georgia

TBC Bank Group
Consolidated Statement of Financial Position

<i>In thousands of GEL</i>	Notes	31 December 2013	31 December 2012	31 December 2011
ASSETS				
Cash and cash equivalents	6	390,465	398,587	374,153
Due from other banks	7	1,708	29,542	40,942
Mandatory cash balances with the National Bank of Georgia	8	295,332	316,061	250,067
Loans and advances to customers	9	2,801,712	2,370,200	2,008,745
Investment securities available for sale	10	500,651	407,733	266,436
Investment securities held to maturity	11	-	-	28,956
Investments in finance leases	13	35,613	26,377	21,979
Investment properties	16	83,383	34,305	27,082
Current income tax prepayment		6,202	10,135	-
Goodwill	17	2,726	2,726	2,726
Intangible assets	15	23,491	18,817	10,064
Premises and equipment	15	199,668	192,556	163,879
Other financial assets	12	45,049	25,301	11,339
Other assets	14	65,075	67,354	93,653
TOTAL ASSETS		4,451,075	3,899,694	3,300,021
LIABILITIES				
Due to credit institutions	18	565,806	627,123	628,150
Customer accounts	19	2,886,883	2,486,944	1,999,256
Current income tax liability		-	-	14,162
Debt securities in issue	20	4,474	-	-
Deferred income tax liability	34	27,814	20,143	8,048
Provisions for liabilities and charges	21	12,380	6,174	8,434
Other financial liabilities	22	24,850	19,462	11,305
Other liabilities	23	31,305	20,744	19,405
Subordinated debt	24	168,274	115,080	142,480
TOTAL LIABILITIES		3,721,786	3,295,670	2,831,240
EQUITY				
Share capital	25	16,499	16,143	15,171
Share premium	25	242,624	231,501	203,308
Retained earnings		402,627	298,880	201,826
Share based payment reserve	26	2,032	4,142	6,180
Other reserves	29	50,840	41,939	33,162
Net assets attributable to owners		714,622	592,605	459,647
Non-controlling interest	38	14,667	11,419	9,134
TOTAL EQUITY		729,289	604,024	468,781
TOTAL LIABILITIES AND EQUITY		4,451,075	3,899,694	3,300,021

Approved for issue and signed on behalf of the Board of Directors on 24 February 2014


Vakhtang Butskhrikidze
Chief Executive Officer


Giorgi Shagidze
Chief Financial Officer

TBC Bank Group
Consolidated Statement of Profit or Loss and Other Comprehensive Income

<i>In thousands of GEL</i>	Notes	2013	2012	2011
Interest income	30	474,796	456,545	360,215
Interest expense	30	(192,146)	(217,895)	(151,134)
Net interest income		282,650	238,650	209,081
Fee and commission income	31	66,497	58,140	43,802
Fee and commission expense	31	(24,301)	(18,830)	(15,094)
Net fee and commission income		42,196	39,310	28,708
Gains less losses from trading in foreign currencies		37,894	25,240	25,419
Foreign exchange translation (losses less gains) / gains less losses		(5,901)	7,617	394
Gains less losses/(losses less gains) from derivative financial instruments		613	(3,804)	(4,987)
Other operating income	32	24,000	19,772	9,923
Other operating non-interest income		56,606	48,825	30,749
Provision for loan impairment	9	(32,971)	(23,154)	(16,049)
(Provision for) / recovery of provision for impairment of investments in finance lease	13	(98)	(42)	174
Provision for performance guarantees and credit related commitments	21	(6,459)	(1,606)	(1,353)
Provision for impairment of other financial assets	12	(2,236)	(4,132)	(397)
Impairment / (recovery of impairment) of investment securities available for sale		(1,142)	(10)	116
Recovery of impairment for assets classified as held for sale		-	-	1,519
Operating income after provisions for impairment		338,546	297,841	252,548
Staff costs		(108,613)	(92,289)	(78,426)
Depreciation and amortisation	15,16	(19,993)	(22,103)	(15,088)
Provision for liabilities and charges	21	(1,315)	(1,700)	(200)
Administrative and other operating expenses	33	(68,692)	(69,440)	(51,744)
Operating expenses		(198,613)	(185,532)	(145,458)
Profit before tax		139,933	112,309	107,090
Income tax expense	34	(15,663)	(14,498)	(15,465)
Profit for the year		124,270	97,811	91,625
Other comprehensive income:				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Revaluation of available-for-sale investments	10	7,923	682	1,277
Exchange differences on translation to presentation currency	29	1,233	(217)	(904)
Income tax recorded directly in other comprehensive income	34	(255)	(154)	(90)
<i>Items that will not be reclassified to profit or loss:</i>				
Revaluation of premises and equipment	29	-	10,513	1,311
Income tax recorded directly in other comprehensive income	34	-	(1,520)	(245)
Other comprehensive income for the year		8,901	9,304	1,349
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		133,171	107,115	92,974
Profit is attributable to:				
- Owners of the Bank		121,616	96,519	90,898
- Non-controlling interest		2,654	1,292	727
Profit for the year		124,270	97,811	91,625
Total comprehensive income is attributable to:				
- Owners of the Bank		130,517	105,823	92,247
- Non-controlling interest		2,654	1,292	727
Total comprehensive income for the year		133,171	107,115	92,974
Earnings per share for profit attributable to the owners of the Bank:				
- Basic earnings per share	27	742.0	630.1	600.6
- Diluted earnings per share	27	740.6	630.1	598.5

TBC Bank Group
Consolidated Statement of Changes in Equity

<i>In thousands of GEL</i>	Note	Net assets Attributable to owners					Total	Non-control ling interest	Total equity
		Share capital	Share pre- mium payments	Share based reserves (note 29) reserve	Other reserves	Retained earnings			
Balance at 1 January 2011		15,113	201,723	-	31,813	123,423	372,072	5,200	377,272
Profit for the year		-	-	-	-	90,898	90,898	727	91,625
Other comprehensive income		-	-	-	1,349	-	1,349	-	1,349
Total comprehensive income for 2011		-	-	-	1,349	90,898	92,247	727	92,974
Increase in share capital arising from share based payment	25	58	1,585	(1,643)	-	-	-	-	-
Share based payment	26	-	-	7,823	-	-	7,823	-	7,823
Dividends paid		-	-	-	-	(12,495)	(12,495)	-	(12,495)
Business combination		-	-	-	-	-	-	3,207	3,207
Balance at 31 December 2011		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	25	815	23,612	-	-	-	24,427	-	24,427
Share based payment	26	-	-	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	25	240	7,097	-	-	-	7,337	-	7,337
Share based payment	26	-	-	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

TBC Bank Group
Consolidated Statement of Cash Flows

<i>In thousands of GEL</i>	Note	2013	2012	2011
Cash flows from operating activities				
Interest received		462,448	430,700	346,346
Interest paid		(192,482)	(200,303)	(168,368)
Fees and commissions received		66,958	58,140	42,746
Fees and commissions paid		(24,097)	(18,830)	(15,094)
Income received from trading in foreign currencies		37,894	25,240	25,419
Other operating income received		18,165	16,085	10,980
Staff costs paid		(102,115)	(89,589)	(67,479)
Administrative and other operating expenses paid		(66,849)	(66,465)	(50,921)
Income tax paid		(2,008)	(26,701)	(438)
Cash flows from operating activities before changes in operating assets and liabilities		197,914	128,277	123,191
Changes in operating assets and liabilities				
Net decrease / (increase) in due from other banks		61,275	(54,599)	(217,232)
Net increase in loans and advances to customers		(453,686)	(404,568)	(660,195)
Net increase in investment in finance lease		(9,334)	(4,398)	-
Net increase in other financial assets		(23,048)	(25,276)	-
Net decrease in other assets		22,471	26,402	11,287
Net (decrease) / increase in due to other banks		(30,334)	(34,013)	62,181
Net increase in customer accounts		297,393	474,948	703,751
Net increase in other financial liabilities		7,808	6,383	-
Net increase / (decrease) in other liabilities		5,231	1,339	(2,091)
Net cash from operating activities		75,690	114,495	20,892
Cash flows from investing activities				
Acquisition of investment securities available for sale	10	(755,433)	(813,864)	(646,538)
Proceeds from disposal of investment securities available for sale	10	61,626	90,857	47,815
Proceeds from redemption at maturity of investment securities available for sale	10	619,902	599,913	571,104
Acquisition of investment securities held to maturity	11	-	(5,000)	-
Proceeds from redemption of investment securities held to maturity	11	-	33,000	-
Acquisition of premises, equipment and intangible assets		(31,052)	(52,820)	(30,634)
Proceeds from disposal of investment property		18,316	14,296	4,389
Proceeds from disposal of subsidiary, net of disposed cash		-	-	150
Net cash used in investing activities		(86,641)	(133,618)	(53,714)
Cash flows from financing activities				
Proceeds from other borrowed funds		159,856	321,160	359,985
Redemption of other borrowed funds		(213,057)	(286,695)	(208,316)
Proceeds from subordinated debt		45,763	-	-
Redemption of subordinated debt		-	(24,738)	(7,875)
Proceeds from debt securities in issue		4,474	-	-
Dividends paid		(17,869)	-	(12,495)
Equity contribution of owners of non-controlling shareholders		594	993	-
Issue of ordinary shares		7,199	24,426	-
Net cash (used in) / from financing activities		(13,040)	35,146	131,299
Effect of exchange rate changes on cash and cash equivalents		15,869	8,411	251
Net (decrease) / increase in cash and cash equivalents		(8,122)	24,434	98,728
Cash and cash equivalents at the beginning of the year	6	398,587	374,153	275,425
Cash and cash equivalents at the end of the year	6	390,465	398,587	374,153

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 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 2013, 2012 and 2011 shareholders structure is as follows:

Shareholders	% of ownership interest held as at 31 December		
	2013	2012	2011
International Finance Corporation	20%	20%	20%
European Bank for Reconstruction and Development	20%	20%	20%
TBC Holdings LTD	19%	20%	21%
Deutsche Investitions und Entwicklungsgesellschaft MBH	11%	12%	11%
Liquid Crystal International N.V. LLC	7%	7%	7%
Individuals	9%	7%	8%
JPMorgan Chase Bank	5%	5%	5%
Ashmore Cayman SPC	4%	4%	5%
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	5%	5%	3%
Total	100%	100%	100%

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 (2012: 13; 2011: 13) branches and 47 (2012: 45; 2011: 37) service centres within Georgia. As at 31 December 2013, the Bank had 2,893 employees (2012: 2,705 employees; 2011: 2,598 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:

Subsidiary	Ownership / voting % as of 31 December			Country	Year of incorporation or acquisition	Industry
	2013	2012	2011			
United Financial Corporation JSC	93.32%	93.32%	93.32%	Georgia	1997	Card processing
TBC Broker LLC	100%	100%	100%	Georgia	1999	Brokerage
TBC Leasing JSC	89.53%	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	84.69%	83.85%	83.3%	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 1

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.

2 Summary of Significant Accounting Policies (Continued)

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.

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.

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 28 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)

Reposessed 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 reposessed 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 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 eight years.

2 Summary of Significant Accounting Policies (Continued)

Investments in leases. 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.

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.

2 Summary of Significant Accounting Policies (Continued)

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.

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.

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.

2 Summary of Significant Accounting Policies (Continued)

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.

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 2013 the closing rate of exchange used for translating foreign currency balances was USD 1 = 1.7363 GEL (2012: USD 1 = GEL 1.6567; 2011: USD 1 = GEL 1.6703); EUR 1 = 2.3891 GEL (2012: EUR 1 = GEL 2.1825; 2011: EUR 1 = GEL 2.1614).

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.

2 Summary of Significant Accounting Policies (Continued)

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 2013. The following reclassifications were made to 31 December 2011 and 31 December 2012 balances to conform to the 31 December 2013 presentation:

Period end	Financial statement line item	As previously reported	As reclassified	Description
31 December 2012	Mandatory cash balances with the NBG	-	316,061	Separate disclosure of mandatory cash balances with the NBG on the face of the statement of financial position.
	Due from other banks	345,603	29,542	
31 December 2011	Mandatory cash balances with the NBG	-	250,067	on the face of the statement of financial position.
	Due from other banks	291,009	40,942	
31 December 2012	Due to other banks	(76,204)	-	Due to other banks and other borrowed funds have been combined and are presented together on the on the face of the statement of financial position.
	Other borrowed funds	(550,919)	-	
	Due to credit institutions	-	(627,123)	
31 December 2011	Due to other banks	(110,378)	-	on the face of the statement of financial position.
	Other borrowed funds	(517,772)	-	
	Due to credit institutions	-	(628,150)	
31 December 2012	Provision for liabilities and charges	(3,306)	(1,700)	Separate disclosure of provision for performance guarantees and credit related commitments on the face of statement of profit or loss and other comprehensive income
	Provision for performance guarantees and credit related commitments	-	(1,606)	
31 December 2011	Provision for liabilities and charges	(1,553)	(200)	on the face of statement of profit or loss and other comprehensive income
	Provision for performance guarantees and credit related commitments	-	(1,353)	

In order to enhance the usefulness of consolidated statement of profit or loss and other comprehensive income the management has decided to change the grouping of the line items and introduced the following sub-totals: net fee and commission income; other operating non-interest income, operating income after provisions for impairment, operating expenses.

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 2013, 2012 and 2011, 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 7,843 thousand (2012: GEL 8,325 thousand; 2011: GEL 7,933 thousand) and additional charge for impairment of finance lease receivables of GEL 9 thousand (2012: GEL 6 thousand ; 2011: GEL 5 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 4,215 thousand (2012: GEL 3,877 thousand; 2011: GEL 1,032 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 1 thousand (2012: 1 thousand; 2011: GEL nil), 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 2013, investment properties comprised real estate assets located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 86,480 thousand (2012: GEL 45,041 thousand; 2011: GEL 37,966 thousand).

Tax legislation. Georgian and Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 37.

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Put options granted on shares already awarded and to be further awarded under share based compensation schemes. In 2013, the shareholders and Supervisory Board have granted put options on the shares to be awarded under the management compensation scheme introduced in 2013 and on the shares awarded under the previous share based payment arrangements (see note 26). The exercise price of all the options granted to employees is the book value per share per latest IFRS consolidated financial statements. These options are exercisable in three equal tranches during one year periods starting from 1 January 2016, 2017, 2018, and will become null and void if at least 25% of the authorised shares of the Bank are listed on a stock exchange. The management expects that the listing will happen before 1 January 2016 and the put options will expire without being exercised. If the management did not expect the put options to expire without being exercised, the Group would have to recognise cash-settled liability in the amount of present value of expected outflow upon the exercise of the put options.

4 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2013:

IFRS 10 “Consolidated Financial Statements” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation - special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Standard did not have any material impact on the Group’s consolidated financial statements.

IFRS 11 “Joint Arrangements” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities—Non-Monetary Contributions by Venturers”. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Standard did not have any material impact on the Group’s consolidated financial statements.

IFRS 12 “Disclosure of Interests in Other Entities” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarized financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Standard resulted in additional disclosures in these consolidated financial statements. Refer to Note 38.

IFRS 13 “Fair Value Measurement” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Standard resulted in additional disclosures in these consolidated financial statements. Refer to Note 41.

IAS 27 “Separate Financial Statements” (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013) was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 “Consolidated Financial Statements”. The amended standard did not have any material impact on the Group’s consolidated financial statements.

4 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 28 “Investments in Associates and Joint Ventures” (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board’s project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amended standard did not have any material impact on the Group’s consolidated financial statements.

Amendments to IAS 1 “Presentation of Financial Statements” (issued in June 2011, effective for annual periods beginning on or after 1 July 2013) changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to “statement of profit or loss and other comprehensive income”. The amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.

Amended IAS 19 “Employee Benefits” (issued in June 2011, effective for periods beginning on or after 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The amended standard did not have any material impact on the Group’s consolidated financial statements.

“Disclosures - Offsetting Financial Assets and Financial Liabilities” - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that enable users of an entity’s consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Standard resulted in additional disclosures in these consolidated financial statements. Refer to Note 39.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 “Borrowing costs”, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Group’s consolidated financial statements.

4 Adoption of New or Revised Standards and Interpretations (Continued)

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 “Borrowing costs”, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Group’s consolidated financial statements.

“Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12” (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 “Consolidated Financial Statements”. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standards did not have any material impact on the Group’s consolidated financial statements.

Other revised standards and interpretations: IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation did not have an impact on the Group’s consolidated financial statements. Amendments to IFRS 1 “First-time adoption of International Financial Reporting Standards - Government Loans”, which were issued in March 2012 and are effective for annual periods beginning 1 January 2013, give first-time adopters of IFRSs relief from full retrospective application of accounting requirements for loans from government at below market rates. The amendment is not relevant to 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 2014 or later, and which the Group has not early adopted.

IFRS 9, “Financial Instruments: Classification and Measurement”. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.

5 New Accounting Pronouncements (Continued)

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- 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.
- 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 amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

“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 Group is considering the implications of the amendment and its 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 will be 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 Group does not expect the amendment to have any impact on its financial statements.

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 Group does not expect the amendment to have any impact on its financial statements.

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 Group does not expect the amendment to have any impact on its financial statements.

5 New Accounting Pronouncements (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

5 New Accounting Pronouncements (Continued)

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

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

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

<i>In thousands of GEL</i>	2013	2012	2011
Cash on hand	165,385	139,362	116,938
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	61,407	71,707	53,024
Correspondent accounts and overnight placements with other banks	79,643	163,869	128,552
Placements with and receivables from other banks with original maturities of less than three months	84,030	23,649	75,639
Total cash and cash equivalents	390,465	398,587	374,153

Interest rate analysis of cash and cash equivalents is disclosed in Note 35.

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

<i>In thousands of GEL</i>	2013	2012	2011
AA	-	-	749
AA-	-	-	1,242
A+	58,192	62,137	66,025
A	14,904	94,792	51,515
A-	-	-	170
BBB+	-	-	563
BBB	1,844	764	-
BBB-	-	11	366
BB	-	3,591	-
BB-	262	-	-
B+	-	511	-
B	570	-	-
B-	1,170	277	-
Not rated	2,701	1,786	7,922
Total	79,643	163,869	128,552

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

<i>In thousands of GEL</i>	2013	2012	2011
BB+	70,042	16,369	-
Not rated	13,988	7,280	75,639
Total	84,030	23,649	75,639

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. Balances with other banks without rating represent placements with top 10 Georgian Banks.

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 2013, 2012 and 2011. All of the placements were with non-rated banks.

At 31 December 2013 the Group did not have placements with any bank, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2012: one bank; 2011: one bank). The total aggregate amount of these deposits was GEL 28,164 thousand as of 31 December 2012 and GEL 40,006 thousand as of 31 December 2011.

As of 31 December 2013, GEL 1,615 thousand (2012: GEL 1,213 thousand; 2011 GEL 588 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company.

Refer to Note 41 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 35.

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 2013, 2012 and 2011.

In 2013, Fitch Ratings re-affirmed government of Georgia's short-term sovereign credit rating of "B" and long-term credit rating of "BB-".

9 Loans and Advances to Customers

<i>In thousands of GEL</i>	2013	2012	2011
Corporate loans	1,157,334	1,142,087	1,003,849
Consumer loans	603,434	482,704	409,065
Mortgage loans	499,428	385,416	375,008
Loans to small and medium enterprises	392,446	294,217	236,016
Micro loans	201,287	145,931	85,011
Others	104,652	86,343	58,456
Total loans and advances to customers (before impairment)	2,958,581	2,536,698	2,167,405
Less: Provision for loan impairment	(156,869)	(166,498)	(158,660)
Total loans and advances to customers	2,801,712	2,370,200	2,008,745

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

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

<i>In thousands of GEL</i>	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
Provision for/(recovery of) impairment during the year	21,203	22,789	(2,316)	1,846	4,234	47,756
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

9 Loans and Advances to Customers (Continued)

The provision for impairment during 2013 differs from the amount presented in profit or loss for the year due to GEL 14,785 thousand, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

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.

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

<i>In thousands of GEL</i>	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
Provision for impairment during the year	10,993	22,040	2,541	2,571	5,056	43,201
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

The provision for impairment during 2012 differs from the amount presented in profit or loss for the year due to GEL 20,047 thousand, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

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.

Movements in the provision for loan impairment during 2011 are as follows:

<i>In thousands of GEL</i>	Corpo- rate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Total
Provision for loan impairment at 1 January 2011	116,440	24,527	15,924	10,563	-	167,454
(Recovery of)/Provision for impairment during the year	27,596	12,691	1,767	(1,263)	966	41,757
Amounts written off during the year as uncollectible	(29,930)	(11,385)	(5,030)	(3,841)	(365)	(50,551)
Provision for loan impairment at 31 December 2011	114,106	25,833	12,661	5,459	601	158,660

The provision for impairment during 2011 differs from the amount presented in profit or loss for the year due to GEL 25,708 thousand, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

Loans and advances to customers written off in 2011 included loans to customers in the gross amount of GEL 2,331 thousand issued during 2011 and GEL 48,220 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 43.

9 Loans and Advances to Customers (Continued)

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

<i>In thousands of GEL</i>	2013		2012		2011	
	Amount	%	Amount	%	Amount	%
Individual	1,102,863	37%	868,119	34%	784,073	36%
Service	539,825	18%	487,938	19%	398,698	18%
Real estate	132,321	5%	149,328	6%	140,708	6%
Oil and gas	121,921	4%	143,355	6%	114,798	5%
Consumer goods and automobile trading	130,152	4%	132,579	5%	120,311	6%
Food industry	158,865	5%	109,031	4%	90,781	4%
Construction	101,879	3%	108,914	4%	83,168	4%
Agriculture	164,441	6%	119,935	5%	64,685	3%
Energy	106,083	4%	79,929	3%	95,615	4%
Communication	102,547	4%	82,360	3%	83,982	4%
Pawn shop	104,652	4%	86,343	4%	58,456	3%
Transportation	67,223	2%	70,453	3%	55,020	3%
Manufacturing	33,609	1%	30,073	1%	12,200	1%
Mining	40,346	1%	31,140	1%	30,490	1%
Other	51,854	2%	37,201	2%	34,420	2%
Total loans and advances to customers (before impairment)	2,958,581	100%	2,536,698	100%	2,167,405	100%

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

In 2013, the Group has re-assessed allocation of the loans into the economic sectors. The Group has revised the sector split for 2011 and 2012 in order to make it consistent with 2013.

At 31 December 2013 the Group had 62 borrowers (2012: 61 borrower; 2011: 52 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 910,248 thousand (2012: GEL 879,619 thousand; 2011: GEL 746,079 thousand) or 31% of the gross loan portfolio (2012: 35%; 2010: 37%).

9 Loans and Advances to Customers (Continued)

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

	Corporate loans	Consu- mer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
<i>In thousands of GEL</i>							
<i>Neither past due nor impaired</i>							
- 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
<i>Past due but not impaired</i>							
- 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
<i>Individually assessed impaired loans (gross)</i>							
- not overdue	175,635	-	-	2,335	-	-	177,970
- 30 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
<i>Collectively assessed impaired loans (gross)</i>							
- 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:

	Corporate loans	Consu- mer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
<i>In thousands of GEL</i>							
<i>Neither past due nor impaired</i>							
- 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
<i>Past due but not impaired</i>							
- 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
<i>Individually assessed impaired loans (gross)</i>							
- 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
<i>Collectively assessed impaired loans (gross)</i>							
- 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

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

	Corporate loans	Consu- mer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
<i>In thousands of GEL</i>							
<i>Neither past due nor impaired</i>							
- Borrowers with credit history over two years	383,614	137,038	195,279	85,932	629	-	802,492
- New borrowers	577,053	249,289	168,567	139,319	83,911	58,456	1,276,595
Total neither past due nor impaired	960,667	386,327	363,846	225,251	84,540	58,456	2,079,087
<i>Past due but not impaired</i>							
- 1 to 30 days overdue	790	7,225	1,286	1,309	306	-	10,916
- 31 to 90 days overdue	12	3,517	1,055	487	72	-	5,143
- 91 to 180 days overdue	-	37	-	-	42	-	79
- 181 to 360 days overdue	-	56	-	-	51	-	107
Total past due but not impaired	802	10,835	2,341	1,796	471	-	16,245
<i>Individually assessed impaired loans (gross)</i>							
- not overdue	25,786	-	-	-	-	-	25,786
- 1 to 30 days overdue	5,586	-	-	-	-	-	5,586
- 90 to 180 days overdue	2,120	-	-	-	-	-	2,120
Total individually impaired loans	33,492	-	-	-	-	-	33,492
<i>Collectively assessed impaired loans (gross)</i>							
- not overdue	7,779	3,070	5,759	6,592	-	-	23,200
- 1 to 30 days overdue	-	354	317	65	-	-	736
- 31 to 90 days overdue	1,109	1,355	521	118	-	-	3,103
- 91 to 180 days overdue	-	5,137	1,790	1,780	-	-	8,707
- 181 – 360 days overdue	-	1,829	434	414	-	-	2,677
- more than 360 days overdue	-	158	-	-	-	-	158
Total collectively assessed impaired loans	8,888	11,903	8,821	8,969	-	-	38,581
Total loans and advances to customers (before impairment)	1,003,849	409,065	375,008	236,016	85,011	58,456	2,167,405
Total provision	(114,106)	(25,833)	(12,661)	(5,459)	(601)	-	(158,660)
Total loans and advances to customers	889,743	383,232	362,347	230,557	84,410	58,456	2,008,745

The retail segment in Note 28 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 2013:

<i>In thousands of GEL</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	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

The effect of collateral at 31 December 2012:

<i>In thousands of GEL</i>	Over-collateralised Assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	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

9 Loans and Advances to Customers (Continued)

The effect of collateral at 31 December 2011:

<i>In thousands of GEL</i>	Over-collateralised Assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	775,932	3,219,868	227,917	111,416
Consumer loans	217,830	608,937	191,235	4,570
Mortgage loans	358,019	929,690	16,989	5,453
Loans to small and medium enterprises	224,275	767,600	11,741	4,202
Micro loans	34,177	83,751	50,834	153
Others	58,456	58,456	-	-
Total	1,668,689	5,668,302	498,716	125,794

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 41 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 35. Information on related party balances is disclosed in Note 43.

10 Investment Securities Available for Sale

<i>In thousands of GEL</i>	2013	2012	2011
Certificates of Deposit of the National Bank of Georgia	321,140	187,551	168,537
Ministry of Finance of Georgia Treasury Bills	-	19,210	61,014
Georgian Government notes	173,974	196,004	32,942
Total debt securities	495,114	402,765	262,493
Corporate shares – unquoted	679	1,812	1,812
Corporate shares – quoted (VISA Inc)	4,858	3,156	2,131
Total investment securities available for sale	500,651	407,733	266,436

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 679 thousand (2011: GEL 1,812 thousand; 2011: 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 2013 investment securities available for sale carried at GEL 84,086 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2012: 54,800; 2011: GEL nil). Refer to Note 18.

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

At 31 December 2013 the principal equity investment securities available for sale are:

Name	Nature of business	Country of registration	Carrying value at 31 December		
			2013	2012	2011
JSC GRDC	Property development	Netherlands Antilles	365	1,502	1,502
Visa Inc.	Card Processing	USA	4,858	3,156	2,131
Other			314	310	310
Total			5,537	4,968	3,943

10 Investment Securities Available for Sale (Continued)

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

<i>In thousands of GEL</i>	Note	2013	2012	2011
Carrying amount at 1 January		407,733	266,436	216,323
Purchases		755,433	813,864	646,538
Disposals		(61,626)	(90,857)	(47,815)
Redemption at maturity		(619,902)	(599,913)	(571,104)
Revaluation	29	7,923	682	1,277
Interest income accrued (Note 30)		30,442	27,211	23,253
Interest income received		(18,210)	(9,680)	(2,152)
Impairment) / recovery of impairment related to investment in equity security		(1,142)	(10)	116
Carrying amount at 31 December		500,651	407,733	266,436

11 Investment Securities Held to Maturity

<i>In thousands of GEL</i>	2013	2012	2011
Georgian Government notes	-	-	28,956
Total investment securities held to maturity	-	-	28,956

The movement in investment securities held to maturity is as follows:

<i>In thousands of GEL</i>	2013	2012	2011
Gross amount at 1 January	-	28,956	28,986
Additions	-	5,000	-
Redemption at maturity	-	(33,000)	-
Interest income accrual (Note 30)	-	2,373	3,642
Interest income received	-	(3,329)	(3,672)
Gross amount at 31 December	-	-	28,956

Refer to Note 41 for the disclosure of the fair value of investment securities held to maturity. Interest rate analysis of investment securities held to maturity is disclosed in Note 35.

12 Other Financial Assets

<i>In thousands of GEL</i>	2013	2012	2011
Receivable on terminated leases	2,249	4,345	4,528
Prepayments for purchase of leasing assets	13,516	6,859	5,480
Receivables on credit card services and money transfers	6,557	3,349	1,025
Receivables on guarantees	11,660	10,890	575
Other	14,147	6,743	3,697
Less: Provision for impairment	(3,080)	(6,885)	(3,966)
Total other financial assets	45,049	25,301	11,339

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

<i>In thousands of GEL</i>	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

12 Other Financial Assets (Continued)

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

<i>In thousands of GEL</i>	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

Movements in the provision for impairment of other financial assets during 2011 are as follows:

<i>In thousands of GEL</i>	Receivables on terminated leases	Other	Total
Provision for impairment at 1 January 2011	4,639	358	4,997
Provision for impairment/(release from provision) during the year	755	(358)	397
Amounts written off during the year as uncollectible	(1,428)	-	(1,428)
Provision for impairment at 31 December 2011	3,966	-	3,966

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

<i>In thousands of GEL</i>	2013	2012	2011
<i>Neither past due nor impairment</i>			
- Prepayments for purchase of leasing assets	13,516	6,859	5,480
- Receivables on credit card services and money transfers	6,557	3,349	1,025
- Receivables on guarantees	880	1,084	575
- Other	11,830	3,873	3,697
Total neither past due nor impaired	32,783	15,165	10,777
<i>Past due but not impaired</i>			
- Receivables on guarantees			
- more than 90 days overdue	10,780	9,806	-
Total past due but not impaired	10,780	9,806	-
<i>Receivables individually determined to be impaired (gross)</i>			
- Receivables on terminated leases			
- less than 90 days overdue	-	175	-
- more than 90 days overdue	2,249	4,170	4,528
- Other receivables			
- less than 90 days overdue	504	2,870	-
- more than 90 days overdue	1,813	-	-
Total individually impaired (gross)	4,566	7,215	4,528
Less impairment provision	(3,080)	(6,885)	(3,966)
Total other financial assets	45,049	25,301	11,339

12 Other Financial Assets (Continued)

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 95 thousand (2012: GEL 472 thousand; 2011: GEL 636 thousand). The remaining assets are not collateralized.

13 Investments in Finance Lease

Investments in finance lease of GEL 35,613 thousand (2012: GEL 26,377 thousand; 2011: GEL 21,979 thousand) are represented by leases of equipment.

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

<i>In thousands of GEL</i>	Due in 1 year	Due between 2 and 5 years	Total
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
Finance lease payments receivable at 31 December 2011	14,110	15,742	29,852
Unearned finance income	(4,209)	(3,556)	(7,765)
Impairment loss provision	(61)	(47)	(108)
Present value of lease payments receivable at 31 December 2011	9,840	12,139	21,979

At 31 December 2013 the estimated fair value of financial lease receivables was GEL 35,613 thousand (2012: GEL 26,377 thousand; 2011: GEL 21,979 thousand). Refer to Note 41.

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

<i>In thousands of GEL</i>	31 December 2013	31 December 2012	31 December 2011
Provision for impairment at the beginning of the year	114	108	514
(Recovery) / provision for impairment during the year	98	42	(174)
Amounts written off during the year as uncollectible	(35)	(27)	(212)
Transfer from receivable from terminated leases	-	(9)	(20)
Provision for impairment at the end of the year	177	114	108

13 Investments in Finance Lease (Continued)

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

<i>In thousands of GEL</i>	31 December 2013	31 December 2012	31 December 2011
<i>Neither past due nor impaired</i>			
- Customers with more than two year experience	8,750	7,044	4,525
- New customers	19,854	15,365	16,802
Total neither past due nor impaired	28,604	22,409	21,327
<i>Past due but not impaired</i>			
- Less than 90 days overdue	3,261	872	719
- 180 days to 360 days overdue	-	6	41
Total past due but not impaired	3,261	878	760
<i>Individually impaired</i>			
- Not overdue	2,419	2,686	-
- 1 to 30 days overdue	603	385	-
- 31 days to 90 days overdue	59	133	-
- From 91 to 180 days	583	-	-
- From 181 to 360 days	251	-	-
- More than 360 days	10	-	-
Individually impaired gross	3,925	3,204	-
Total investment in finance lease- gross	35,790	26,491	22,087
Impairment loss provision	(177)	(114)	(108)
Total net investment in finance lease	35,613	26,377	21,979

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").

13 Investments in Finance Lease (Continued)

The effect of collateral at 31 December 2013:

<i>In thousands of GEL</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
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:

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

The effect of collateral at 31 December 2011:

<i>In thousands of GEL</i>	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	21,023	37,949	1,064	899
Total	21,023	37,949	1,064	899

14 Other Assets

<i>In thousands of GEL</i>	2013	2012	2011
Current other assets			
Inventories of repossessed collateral	49,920	56,316	82,317
Prepayments for other assets	3,006	3,401	3,350
Other inventories	3,130	3,383	2,293
Prepaid taxes other than income tax	402	528	2,193
Total current other assets	56,458	63,628	90,153
Non-current other assets			
Assets repossessed from terminated leases	1,752	1,852	867
Prepayments for construction in progress	5,016	905	2,131
Assets purchased for leasing purposes	-	413	82
Prepaid insurance of leasing assets	482	347	316
Other	1,367	209	104
Total non-current other assets	8,617	3,726	3,500
Total other assets	65,075	67,354	93,653

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 2013, the carrying value of the inventories of repossessed collateral which were subject to the repurchase agreement was GEL 19,840 thousand (2012: GEL 16,158 thousand, 2011: GEL 27,949 thousand).

15 Premises, Equipment and Intangible Assets

	Note	Premises and leasehold improvements	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
<i>In thousands of GEL</i>							
Cost or valuation at 1 January 2011		100,323	72,141	23,867	196,331	8,384	204,715
Accumulated depreciation/amortisation		(12,701)	(39,201)	-	(51,902)	(4,824)	(56,726)
Carrying amount at 1 January 2011		87,622	32,940	23,867	144,429	3,560	147,989
Additions		4,647	11,799	6,870	23,316	4,759	28,075
Transfers		9,122	631	(9,753)	-	-	-
Transfers from Investment Property, net	16	3,188	-	-	3,188	-	3,188
Disposals		(786)	(3,339)	(1,392)	(5,517)	(54)	(5,571)
Increase / (decrease) in value on revaluation	29	1,311	-	(481)	830	-	830
Acquisition of subsidiaries		5,093	1,317	671	7,081	773	7,854
Adjustment due to previous recognition of disposal group held for sale (net of depreciation and amortisation)		-	1,299	-	1,299	2,216	3,515
Depreciation/amortisation charge		(3,898)	(9,587)	-	(13,485)	(1,210)	(14,695)
Elimination of accumulated depreciation/amortisation on disposals and reclassification to disposal group held for sale		250	2,488	-	2,738	20	2,758
Carrying amount at 31 December 2011		106,549	37,548	19,782	163,879	10,064	173,943
Cost or valuation at 31 December 2011		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)	(6208)	(73,639)
Carrying amount at 31 December 2011		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 to Investment Property, net	16	(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		(769)	-	-	(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	16	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

15 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.

Premises were revalued to market value at 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, 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.

At 31 December 2013 the carrying amount of premises would have been GEL 88,942 thousand (2012: GEL 87,957 thousand; 2011: GEL 78,071 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2013 the carrying amount of construction in progress would have been GEL 20,345 thousand (2012: GEL 20,736 thousand; 2011: GEL 13,278 thousand) had the assets been carried at cost less impairment losses.

16 Investment Properties

<i>In thousands of GEL</i>	Note	2013	2012	2011
Gross book value at 1 January		34,973	27,621	28,015
Accumulated depreciation at 1 January		(668)	(539)	(273)
Carrying amount at 1 January		34,305	27,082	27,742
Transfer from premises and equipment	15	345	2,418	-
Transfer from inventories of repossessed collateral		23,648	19,230	8,988
Addition from foreclosure		38,638	-	-
Transfer to finance lease		-	-	(1,805)
Disposals at cost		(12,481)	(14,296)	(4,389)
Elimination of depreciation on disposal		130	324	127
Transfer to property, plant and equipment	15	(244)	-	(3,188)
Depreciation charge		(958)	(453)	(393)
Gross book value at 1 January		84,879	34,973	27,621
Accumulated depreciation at 1 January		(1,496)	(668)	(539)
Carrying amount at 31 December		83,383	34,305	27,082

At 31 December 2013, investment properties comprised of 12 lots (2012: 10 lots) of land and 58 buildings (2012: 22 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 86,480 thousand (2012: GEL 34,928 thousand; 2011: GEL 37,966 thousand). For details behind valuation refer to Note 3.

16 Investment properties (Continued)

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

<i>In thousands of GEL</i>	2013	2012	2011
Not later than 1 year	163	68	68
Later than 1 year and not later than 5 years	1,736	1,657	1,670
Total operating lease payments receivable	1,899	1,725	1,738

17 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

<i>In thousands of GEL</i>	2013	2012	2011
Carrying amount at 1 January	2,726	2,726	1,262
Addition from acquisition of subsidiary	-	-	769
Transfer on de-classification of non-current assets previously held for sale	-	-	695
Carrying amount at 31 December	2,726	2,726	2,726

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:

<i>In thousands of GEL</i>	2013	2012	2011
JSC Bank Constanta	769	769	769
JSC United Financial Corporation	695	695	695
LLC TBC Kredit	1,262	1,262	1,262
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:

	2013	2012	2011
JSC Bank Constanta			
Growth rate beyond five years of Free Cash Flow to equity	5.00% p.a.	5.00% p.a.	5.00% p.a.
Pre-tax discount rate	24.85% p.a.	24.11% p.a.	29.7% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of Free Cash Flow to equity	5.00% p.a.	5.00% p.a.	7.00% p.a.
Pre-tax discount rate	22.08% p.a.	21.50% p.a.	27.11% p.a.
LLC TBC Kredit			
Growth rate beyond five years of Free Cash Flow to equity	3.20% p.a.	5.00% p.a.	7.00% p.a.
Pre-tax discount rate	23.00% p.a.	22.41% p.a.	28.31% p.a.

17 Goodwill (Continued)

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 need to reduce the carrying value of goodwill by GEL 769 thousand and carrying value of net assets of the CGU by GEL 16,402 thousand (2012: GEL 769 thousand and 16,076 thousand; 2011: GEL 769 thousand and 10,368 thousand). Recoverable amount of JSC Constanta Bank CGU exceeds its carrying amount by GEL 20,467 thousand (2012: GEL 13,370 thousand; 2011: GEL 1,720 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 29.01% p.a. (2012: 27.28% p.a.; 2011: 30.59% 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 101 thousand (2012: nil; 2011: nil). Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 982 thousand (2012: GEL 3,636 thousand; 2011: GEL 1,742 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 23.02% p.a. (2012: 40.01% p.a.; 2011: 38.61% 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 (2012:nil; 2011: would need to reduce the carrying value of goodwill by GEL 1,262 thousand and carrying value of net assets of the CGU by GEL 3,803 thousand). Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 16,829 thousand (2012: GEL 13,972 thousand; 2011: GEL 1,911 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 38.26% p.a. (2012: 37.86% p.a; 2011: 30.43% p.a.).

18 Due to Credit Institutions

<i>In thousands of GEL</i>	2013	2012	2011
Due to other banks			
Correspondent accounts and overnight placements	4,894	6,569	15,003
Deposits from banks	42,358	53,700	89,470
Short-term loans from banks	-	15,935	5,905
Total due to other banks	47,252	76,204	110,378
Other borrowed funds			
Borrowings from foreign banks and financial institutions	417,504	479,854	513,006
Borrowings from local banks and financial institutions	92,987	63,599	-
Borrowings from Ministry of Finance	8,063	7,466	4,766
Total other borrowed funds	518,554	550,919	517,772
Total amounts due to credit institutions	565,806	627,123	628,150

19 Customer Accounts

<i>In thousands of GEL</i>	2013	2012	2011
State and public organisations			
- Current/settlement accounts	134,518	72,638	103,619
- Term deposits	72,463	225,926	70,887
Other legal entities			
- Current/settlement accounts	935,083	635,181	506,432
- Term deposits	134,143	155,112	219,436
Individuals			
- Current/demand accounts	621,211	386,737	354,582
- Term deposits	989,465	1,011,350	744,300
Total customer accounts	2,886,883	2,486,944	1,999,256

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of GEL</i>	2013		2012		2011	
	Amount	%	Amount	%	Amount	%
Individual	1,610,676	56%	1,398,087	56%	1,098,882	55%
Energy	57,179	2%	92,121	4%	75,306	3%
Transportation	129,096	4%	197,115	8%	175,069	9%
Trade and Service	344,803	12%	211,729	8%	216,710	11%
Construction	131,427	5%	116,392	5%	99,521	5%
Real Estate	57,798	2%	45,116	2%	35,344	2%
Food Industry	97,421	3%	53,745	2%	34,829	2%
Consumer Goods and Automobile Trading	72,739	2%	50,286	2%	40,979	2%
Communication	28,909	1%	19,305	1%	38,397	2%
Manufacturing	21,013	1%	15,507	1%	8,534	0%
Oil and Gas	147,005	5%	142,173	6%	12,493	1%
Agriculture	23,772	1%	14,198	0%	15,759	1%
Mining	21,746	1%	6,240	0%	8,742	0%
Other	143,299	5%	124,930	5%	138,691	7%
Total customer accounts	2,886,883	100%	2,486,944	100%	1,999,256	100%

In 2013, the Group has re-assessed allocation of the customer accounts into the economic sectors. The Group has revised the sector split for 2011 and 2012 in order to make it consistent with 2013.

At 31 December 2013 the Group had 97 customers (2012: 78 customers; 2011: 64 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 915,407 thousand (2012: GEL 758,428 thousand; 2011: GEL 615,557 thousand) or 32% (2012:30%; 2011: 31%) of total customer accounts.

At 31 December 2013 included in customer accounts are deposits of GEL 9,652 thousand and GEL 38,973 thousand (2012: GEL 3,572 thousand and GEL 33,135 thousand; 2011: GEL 16,543 thousand and GEL 31,307 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 37.

Refer to Note 41 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 35. Information on related party balances is disclosed in Note 43.

20 Debt Securities in Issue

At 31 December 2013, the Group has debt securities in issue of GEL 4,474 thousand (2012: nil, 2011: nil) in bonds issued on Azerbaijani market. These bonds have a coupon rate of 7% and an effective interest rate of 8.4% based on their issue price, net of transaction costs, at the date of origination.

Refer to Note 41 for the disclosure of the fair value of debt securities in issue. Interest rate analyses of debt securities in issue are disclosed in Note 35.

21 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:

<i>In thousands of GEL</i>	Performance guarantees	Credit related commitments	Other	Total
Carrying amount at 1 January 2011	5,067	714	1,100	6,881
Additions less releases recorded in profit or loss	359	994	200	1,553
Carrying amount at 31 December 2011	5,426	1,708	1,300	8,434
Additions less releases recorded in profit or loss	2,471	(866)	1,700	3,306
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

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.

22 Other Financial Liabilities

Other financial liabilities comprise the following:

<i>In thousands of GEL</i>	Note	2013	2012	2011
Derivative financial liabilities	40	4,405	7,139	5,152
Trade payables		8,129	5,688	2,210
Security deposits for finance lease		6,098	3,388	1,770
Debit or credit card payables		2,488	1,166	274
Other accrued liabilities		3,730	2,081	1,899
Total other financial liabilities		24,850	19,462	11,305

Refer to Note 41 for disclosure of the fair value of other financial liabilities.

23 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of GEL</i>	2013	2012	2011
Accrued employee benefit costs	17,740	13,412	12,978
Advances received	1,297	534	1,986
Taxes payable other than on income	9,705	1,337	468
Other	2,563	5,461	3,973
Total other liabilities	31,305	20,744	19,405

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

24 Subordinated Debt

At 31 December 2013, subordinated debt comprised:

<i>In thousands of GEL</i>	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
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
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	34,905	60,605
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:

<i>In thousands of GEL</i>	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

24 Subordinated Debt (Continued)

At 31 December 2011, subordinated debt comprised:

<i>In thousands of GEL</i>	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	30-May-07	15-Apr-14	20,219	33,771
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,682	31,205
International Financial Corporation	23-Apr-09	12-Nov-18	18,632	31,120
Deutsche Investitions und Entwicklungsgesellschaft MBH	24-Feb-06	15-Feb-12	10,486	17,514
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	10,237	17,099
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,047	11,771
Total subordinated debt			85,303	142,480

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

Refer to Note 41 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 43.

25 Share Capital

<i>In thousands of GEL except for number of shares</i>	Number of outstanding shares	Share capital	Share premium	Total
At 1 January 2011	151,131	15,113	201,723	216,836
Increase in share capital arising from share based payment	579	58	1,585	1,643
At 31 December 2011	151,710	15,171	203,308	218,479
Shares issued	8,145	815	23,612	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

The total issued number of ordinary shares as at 31 December 2013 is 164,987 shares (2012: 161,419 shares; 2011: 151,710 shares). The total authorised number of ordinary shares as at 31 December 2013 is 170,581 shares (2012: 166,431 shares; 2011: 154,431 shares).

All ordinary shares have a nominal value of GEL 100 per share (2012: GEL 100 per share; 2011: GEL 100 per share) and rank equally, except for 3,300 shares included in the share capital, that were awarded to the management under share based payment arrangement enacted in 2011 and which do not have voting rights before service conditions are met (see Note 26). All other shares carry one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

At the reporting date the entity also has 4,150 shares reserved for issuance under share based payment arrangement (2012: 1,157; 2011: 2,721). Per management's estimate, the number of shares that the Bank will need to be issued under the share based payment arrangement approximates 2,797 (2012: 1,157; 2011: 2,721). For share based payments refer to Note 26.

The Bank has declared dividends of GEL 108.3 per share during the year ended 31 December 2013 (2012: nil; 2011: 82.7 per share).

26 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 are subject to continuous employment condition until 1 January 2014 when full title on the awarded shares is transferred to the scheme participants. Before this date, the shares are eligible to dividends but do 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. 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.

The shareholders and Supervisory Board have granted put options on the shares to be awarded under the new management compensation scheme. These put options are exercisable during a one year period starting from the third anniversary of the each share award date. The put options become null and void if at least 25% of the authorised shares of the Bank are listed on a stock. In addition, the shareholders and the Supervisory Board have granted put options on all bonus shares awarded under the previous share based payment arrangements. These options are exercisable in three equal tranches during one year periods starting from 1 January 2016, 2017, 2018, and will become null and void if at least 25% of the authorised shares of the Bank are listed on a stock exchange as mentioned above. As the Group considers occurrence of this event more likely than not, the whole compensation scheme is accounted as an equity settled scheme and there is no liability recognized on the awarded put options. The exercise price of all the options granted to employees is the book value per share per latest IFRS consolidated financial statements.

26 Share Based Payments (Continued)

The Group considers 20 June 2013 as the grant date. Based on management's estimate of expected achievement of performance and service conditions 2,797 shares were granted during 2013 that will be gradually awarded to the members of the scheme as described above. The fair value of the share at the grant date is evaluated at GEL 3,482 per share and the valuation was carried out by an external valuator. The valuation was performed by applying 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 of comparable banks. Income approach involved discounting free cash flows to equity estimated over 10-year horizon. The final valuation was based on income approach, with market approach serving as reasonableness check on the result obtained by the income approach. The value of banks equity so calculated was then divided by the number of ordinary shares issued as of valuation date and further reduces with the discount for lack of control.

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

<i>In GEL except for number of shares</i>	2013	2012	2011
Number of unvested shares at the beginning of the year	1,157	2,721	-
Number of shares granted	2,797	-	3,300
Number of shares vested	(1,157)	(1,564)	(579)
Number of unvested shares at the end of the year	2,797	1,157	2,721
Value at grant date per share (GEL)	3,482	2,837	2,837
Expense on equity-settled part (GEL thousand)	2,032	2,700	7,823
Expense on cash-settled part (GEL thousand)	2,055	676	1,942
Expense recognised as staff cost during the year (GEL thousand)	4,087	3,376	9,765

Liability in respect of the cash-settled part of the award amounted to GEL 2,055 thousand as of 31 December 2013 (2012: GEL 432 thousand; 2011: GEL 1,725 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.

27 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.

<i>In thousands of GEL except for number of shares</i>	2013	2012	2011
Profit for the period attributable to the owners of the Bank	121,616	96,519	90,898
Weighted average number of ordinary shares in issue	163,912	153,169	151,343
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	742.0	630.1	600.6

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 period:

<i>In thousands of GEL except for number of shares</i>	2013	2012	2011
Profit for the period attributable to the owners of the Bank	121,616	96,519	90,898
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	164,222	153,169	151,886
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	740.6	630.1	598.5

28 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. The operating segments have been determined based on these reports as follows:

- Retail – all individual customers of the Group.
- 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-finance 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 U.S.150,000.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax. This measurement basis excludes the effects of certain expenses from the operating segments as disclosed in the relevant reconciliation below. Other information provided to the Board of Directors is measured in a manner consistent with that in these consolidated financial statements, except for the items presented in the relevant reconciliation below. The reconciling items are managed at the Group level and are not allocated to the segments for management and/or reporting purposes.

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 35.

Segment information for the reportable segments of the Group for the years ended 31 December 2013, 2012 and 2011 is set out below:

<i>In thousands of GEL</i>	Retail	Corporate	SME	Micro	Total
31 December 2013					
External revenues:					
– Interest income on loans and advances to customers	207,028	131,385	44,370	51,185	433,968
– Fee and commission income	40,823	15,881	7,349	2,444	66,497
– Gains less losses from trading in foreign currencies	8,614	12,522	9,244	1,513	31,893
Revenue from external customers	256,465	159,788	60,963	55,142	532,358
External Expenses:					
– Interest expense on customer accounts	96,144	35,721	7,622	426	139,913
– Fee and commission expense	17,627	4,688	1,089	620	24,024
– Provision for loan impairment	13,377	17,035	88	2,471	32,971
– Provision for liabilities and charges	-	6,124	335	-	6,459
Expenses from external customers	127,148	63,568	9,134	3,517	203,367
Adjusted profit before non-segmental income, administrative and other expense and income tax	129,317	96,220	51,829	51,625	328,991
31 December 2013					
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

28 Segment Analysis (Continued)

<i>In thousands of GEL</i>	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
31 December 2011					
External revenues:					
– Interest income on loans and advances to customers	153,103	125,345	30,387	14,671	323,506
– Fee and commission income	24,777	12,249	5,934	842	43,802
– Gains less losses from trading in foreign currencies	6,765	12,478	6,176	-	25,419
Revenue from external customers	184,645	150,072	42,497	15,513	392,727
External Expenses:					
– Interest expense on customer accounts	68,713	32,882	3,566	226	105,387
– Fee and commission expense	10,729	382	467	146	11,724
– Provision for loan impairment	(601)	20,617	(4,282)	315	16,049
– Provision for liabilities and charges	9	1,200	144	-	1,353
Expenses from external customers	78,850	55,081	(105)	687	134,513
Adjusted profit before non-segmental income, administrative and other expense and income tax	105,795	94,991	42,602	14,826	258,214
31 December 2011					
Total gross loans and advances to customers reported	842,529	1,003,849	236,016	85,011	2,167,405
Total customer accounts reported	1,098,882	699,590	199,677	1,107	1,999,256
Total credit related commitments and performance guarantees	2,063	351,651	34,640	-	388,354

28 Segment Analysis (Continued)

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

<i>In thousands of GEL</i>	31 December 2013	31 December 2012	31 December 2011
Adjusted profit before non-segmental income, administrative and other expense and income tax	328,991	307,513	258,214
<i>Non-segmental interest income</i>	40,828	42,296	36,709
<i>Non-segmental interest expense</i>	(52,233)	(61,261)	(45,747)
<i>Non-segmental net fee and commission expense</i>	(277)	(3,793)	(3,370)
<i>Non-segmental gains less losses / (losses less gains) from trading in foreign currency</i>	6,001	(6,315)	-
<i>Non-segmental provision for liabilities and charges</i>	(1,315)	(1,700)	(200)
Net gains/(losses) from derivative financial instruments	613	(3,804)	(4,987)
Foreign exchange translation (losses less gains) / gains less losses	(5,901)	7,617	394
(Impairment of) / recovery of impairment for investment securities available for sale	(1,142)	(10)	116
(Provision for) / recovery of impairment of investments in finance lease	(98)	(42)	174
Provision for impairment of other financial assets	(2,236)	(4,132)	(397)
Recovery of impairment for assets classified as held for sale	-	-	1,519
Other operating income	24,000	19,772	9,923
Staff costs	(108,613)	(92,289)	(78,426)
Depreciation and amortisation	(19,993)	(22,103)	(15,088)
Administrative and other operating expenses	(68,692)	(69,440)	(51,744)
Profit before tax	139,933	112,309	107,090

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

<i>In thousands of GEL</i>	31 December 2013	31 December 2012	31 December 2011
Total segment assets (gross loans and advances to customers)	2,958,581	2,536,698	2,167,405
Provision for loan impairment	(156,869)	(166,498)	(158,660)
Cash and cash equivalents	390,465	398,587	374,153
Mandatory cash balances with National Bank of Georgia	295,332	316,061	250,067
Due from other banks	1,708	29,542	40,942
Investment securities available for sale	500,651	407,733	266,436
Current income tax prepayment	6,202	10,135	-
Investment securities held to maturity	-	-	28,956
Other financial assets	45,049	25,301	11,339
Investments in finance leases	35,613	26,377	21,979
Other assets	65,075	67,354	93,653
Premises and equipment	199,668	192,556	163,879
Intangible assets	23,491	18,817	10,064
Investment properties	83,383	34,305	27,082
Goodwill	2,726	2,726	2,726
Total assets per statement of financial position	4,451,075	3,899,694	3,300,021

28 Segment Analysis (Continued)

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

<i>In thousands of GEL</i>	31 December 2013	31 December 2012	31 December 2011
Total segment liabilities (customer accounts)	2,886,883	2,486,944	1,999,256
Due to Credit institutions	565,806	627,123	628,150
Debt securities in issue	4,474	-	-
Current income tax liability	-	-	14,162
Deferred income tax liability	27,814	20,143	8,048
Provisions for liabilities and charges	12,380	6,174	8,434
Other financial liabilities	24,850	19,462	11,305
Other liabilities	31,305	20,744	19,405
Subordinated debt	168,274	115,080	142,480
Total liabilities per statement of financial position	3,721,786	3,295,670	2,831,240

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

<i>In thousands of GEL</i>	31 December 2013	31 December 2012	31 December 2011
Segments' interest income	433,968	414,249	323,506
Investment securities available for sale (Note 10)	30,442	27,211	23,253
Due from other banks	3,030	6,960	6,113
Investment securities held to maturity (Note 11)	-	2,373	3,642
Investments in leases	7,356	5,734	3,438
Other	-	18	263
Total interest income	474,796	456,545	360,215

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

<i>In thousands of GEL</i>	31 December 2013	31 December 2012	31 December 2011
Segments' interest expense	139,913	156,634	105,387
Due to credit institutions	38,645	47,946	31,212
Subordinated debt	13,182	13,226	14,497
Other	406	89	38
Total interest expense	192,146	217,895	151,134

Starting from 2014, the chief operating decision maker will be reviewing the more detailed segmental analysis in order to assess performance and allocate resources. The operating segments, which are the same as reportable segments, will be similar to that in previous years however new segment "Corporate Center and Other Operations" will be added, that comprise central support functions, back office and auxiliary services of the Group.

Segment information for the reportable segments as it will be presented from 2014 and beyond, is set out below for the year ended 31 December 2013:

28 Segment Analysis (Continued)

	Retail	Corpo- rate	SME	Micro	Corporate center and other operations	Total
<i>In thousands of GEL</i>						
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	-	66,497
- 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	(277)	42,196
- 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	-	-	-	-	24,000	24,000
- Other operating non-interest income	31,810	23,715	15,504	3,337	24,436	98,802
- 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

29 Other Reserves

<i>In thousands of GEL</i>	Note	Revaluation reserve for		Cumulative currency translation reserve	Total other reserves
		Premises	Available for sale securities		
At 1 January 2011		27,203	1,333	3,277	31,813
Revaluation of investments available for sale	10	-	1,277	-	1,277
Revaluation of premises	15	1,311	-	-	1,311
Currency translation		-	-	(904)	(904)
Income tax effects		(245)	(90)	-	(335)
At 31 December 2011		28,269	2,520	2,373	33,162
Revaluation of investments available for sale	10	-	682	-	682
Revaluation of premises	15	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 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.

30 Interest Income and Expense

<i>In thousands of GEL</i>	2013	2012	2011
Interest income			
Loans and advances to customers	433,968	414,249	323,506
Investment securities available for sale (Note 10)	30,442	27,211	23,253
Due from other banks	3,030	6,960	6,113
Investment securities held to maturity (Note 11)	-	2,373	3,642
Investments in leases	7,356	5,734	3,438
Other	-	18	263
Total interest income	474,796	456,545	360,215
Interest expense			
Customer accounts	139,913	156,634	105,387
Due to credit institutions	38,645	47,946	31,212
Subordinated debt	13,182	13,226	14,497
Other	406	89	38
Total interest expense	192,146	217,895	151,134
Net interest income	282,650	238,650	209,081

31 Fee and Commission Income and Expense

<i>In thousands of GEL</i>	2013	2012	2011
Fee and commission income			
<i>Fee and commission income in respect of financial instruments not at fair value through profit or loss:</i>			
- Card operations	31,834	26,844	19,337
- Guarantees issued	6,271	9,530	8,167
- Settlement transactions	11,856	10,006	7,638
- Cash transactions	5,040	4,092	4,111
- Foreign exchange operations	1,550	1,632	1,296
- Issuance of letters of credit	6,769	2,762	1,056
- Other	3,177	3,274	2,197
Total fee and commission income	66,497	58,140	43,802
Fee and commission expense			
<i>Fee and commission expense in respect of financial instruments not at fair value through profit or loss:</i>			
- Card operations	13,143	9,657	6,500
- Guarantees received	4,048	3,625	4,752
- Settlement transactions	2,157	1,501	1,477
- Cash transactions	1,544	1,084	521
- Foreign exchange operations	70	62	28
- Other	3,339	2,901	1,816
Total fee and commission expense	24,301	18,830	15,094
Net fee and commission income	42,196	39,310	28,708

32 Other Operating Income

<i>In thousands of GEL</i>	2013	2012	2011
Gain from sale of inventories of repossessed collateral	1,519	4,102	475
Gain from sale of investment properties	5,835	2,734	-
Revenues from pay-box terminal services	7,446	5,154	3,094
Revenues from operational leasing	2,980	3,292	2,876
Administrative fee income from international financial institutions	1,268	1,163	799
Revenues from non-credit related fines	339	434	1,610
Net gain on terminated finance lease contracts	-	108	218
Gain on disposal of premises and equipment	37	-	213
Other	4,576	2,785	638
Total other operating income	24,000	19,772	9,923

Revenues from card processing operations and revenues from banking system services are included in section other of other operating income. Carrying value of inventories of repossessed collateral disposed of during year ended 31 December 2013 was GEL 19,558 thousand (2012: GEL 7,212 thousand; 2011: GEL 26,524 thousand).

33 Administrative and Other Operating Expenses

<i>In thousands of GEL</i>	2013	2012	2011
Advertising and marketing services	13,211	15,183	10,014
Rent	10,809	10,295	8,429
Professional services	6,247	10,054	7,932
Communications and supply	3,103	3,199	2,566
Taxes other than on income	3,043	3,363	2,435
Utility services	3,369	3,036	2,381
Stationery and other office expenses	2,360	2,958	1,790
Intangible asset enhancement	3,767	2,605	1,590
Premises and equipment maintenance	2,484	1,904	971
Transportation and vehicle maintenance	1,215	1,687	1,518
Loss on disposal of premises and equipment	54	1,658	-
Security services	1,597	1,522	1,327
Insurance	1,496	1,440	1,366
Write-down of current assets to fair value less costs to sell	6,178	1,317	1,281
Business trip expenses	1,230	1,104	753
Charity	905	911	982
Personnel training and recruitment	902	574	722
Loss on disposal of inventories	221	-	-
Loss on disposal of investment properties	76	-	-
Other	6,425	6,630	5,687
Total administrative and other operating expenses	68,692	69,440	51,744

34 Income Taxes

Income tax expense comprises the following:

<i>In thousands of GEL</i>	2013	2012	2011
Current tax charge	8,247	4,077	14,904
Deferred tax charge	7,416	10,421	561
Income tax expense for the year	15,663	14,498	15,465

The income tax rate applicable to the majority of the Group's income is 15% (2012: 15%; 2011: 15%). The income tax rate applicable to the majority of subsidiaries income ranges from 15% to 20% (2012: 15% - 20%; 2011: 15% - 20%).

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

<i>In thousands of GEL</i>	2013	2012	2011
Profit before tax	139,933	112,309	107,090
Theoretical tax charge at statutory rate (2012: 15%; 2011: 15%; 2010: 15%)	20,990	16,846	16,064
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income which is exempt from taxation	(4,865)	(4,756)	(4,012)
- Non deductible expenses and other differences	1,758	2,408	3,413
- Recognition of previously unrecognized deferred tax assets	(2,220)	-	-
Income tax expense for the year	15,663	14,498	15,465

34 Income Taxes (Continued)

The Group has not recorded a deferred tax liability in respect of temporary differences of GEL 3,653 thousand (2012: GEL 1,524 thousand; 2011: GEL 484 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.

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% (2012: 15%; 2011: 15%) for Georgia and 20% for Azerbaijan (2012: 20%; 2011: 20%).

	31 December 2012	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2013
<i>In thousands of GEL</i>				
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)

	31 December 2011	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2012
<i>In thousands of GEL</i>				
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)

34 Income Taxes (Continued)

	31 December 2010	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2011
<i>In thousands of GEL</i>				
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(17,180)	3,635	(245)	(13,790)
Loan impairment provision	5,741	4,011	-	9,752
Fair valuation of investment securities available for sale	(235)	(82)	(90)	(407)
Tax loss carry forwards	5,212	(5,014)	-	198
Other assets	1,674	(1,950)	-	(276)
Investment in leases	64	(61)	-	3
Investment property	(2,610)	228	-	(2,382)
Due to credit institutions	22	(543)	-	(521)
Subordinated debt	8	(175)	-	(167)
Other liabilities	146	(604)	-	(458)
Net deferred tax asset/(liability)	(7,158)	(561)	(335)	(8,048)

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.

35 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 Portfolio 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.

35 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 37. 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 efficiently 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 and pricing review, approval of credits and monitoring. As for the portfolio level – credit risk management includes: definition of the risk appetite, credit portfolio analysis, industry analysis, concentrations management, undertaking stress tests and development of credit policies and instructions.

Loan Approval Committees are responsible to review credit applications and approve credit products. There are three different Loan Approval Committees that within the established loan approval limits, review and approve corporate, SME and retail loans. All of them are centralized at the Bank's Head Office. Loan Approval Committee consists of at least two persons with sufficient credit experience, Corporate Loans are above GEL 2 million in addition reviewed by the Corporate Credit Risk Management Department prior to presentation to Loan Approval 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 business segments.

The Credit Portfolio 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 Portfolio 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 another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in 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.

35 Financial and Other Risk Management (Continued)

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

<i>In thousands of GEL</i>	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

35 Financial and Other Risk Management (Continued)

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

<i>In thousands of GEL</i>	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

35 Financial and Other Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2011 is set out below:

<i>In thousands of GEL</i>	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	246,023	123,054	5,076	374,153
Due from other banks	40,007	935	-	40,942
Mandatory cash balances with National Bank of Georgia	250,067	-	-	250,067
Loans and advances to customers	1,963,564	-	45,181	2,008,745
Investment securities available for sale	264,305	2,131	-	266,436
Investment securities held to maturity	28,956	-	-	28,956
Investments in leases	21,979	-	-	21,979
Other financial assets	11,339	-	-	11,339
Total financial assets	2,826,240	126,120	50,257	3,002,617
Non-financial assets	296,310	36	1,058	297,404
Total assets	3,122,550	126,156	51,315	3,300,021
Liabilities				
Due to credit institutions	103,671	469,074	55,405	628,150
Customer accounts	1,916,520	82,654	82	1,999,256
Other financial liabilities	5,603	5,420	282	11,305
Subordinated debt	-	142,480	-	142,480
Total financial liabilities	2,025,794	699,628	55,769	2,781,191
Non-financial liabilities	49,502	7	540	50,049
Total liabilities	2,075,296	699,635	56,309	2,831,240
Net balance sheet position	1,047,254	(573,479)	(4,994)	468,781
Performance guarantees	229,865	-	-	229,865
Credit related commitments	350,409	-	-	350,409

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 such positions within 20% of the Bank's regulatory capital. As at 31 December 2013, the Bank maintained a balance sheet (negative) open foreign currency position of 0.6% of regulatory capital (2012: 5.7%; 2011: 0.03%) and an aggregate (negative) open currency position of 0.79% of regulatory capital (2012: 4.3%; 2011: negative 1.65%). The Asset/Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure for both overnight and intra-day 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.

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.

35 Financial and Other Risk Management (Continued)

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 2013			
	Monetary financial assets	Monetary financial liabilities	Deri- vatives	Net balance sheet position
<i>In thousands of GEL</i>				
Georgian Lari	1,438,492	994,150	(31,569)	412,773
US Dollars	2,374,574	2,333,144	(60,192)	(18,762)
Euros	217,267	294,734	76,450	(1,017)
Other	38,917	28,259	16,532	27,190
Total	4,069,250	3,650,287	1,221	420,184

	At 31 December 2012				At 31 December 2011			
	Monetary financial assets	Monetary financial liabilities	Deri- vatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Deri- vatives	Net balance sheet position
<i>In thousands of GEL</i>								
Georgian Lari	1,088,821	809,165	20,139	299,795	829,932	616,346	8,407	221,993
US Dollars	2,153,303	2,133,821	(14,891)	4,591	1,861,326	1,826,247	(53,967)	(18,888)
Euros	277,692	272,759	(4,802)	131	244,902	258,868	13,617	(349)
Other	54,119	32,864	-	21,255	66,457	79,730	32,109	18,836
Total	3,573,935	3,248,609	446	325,772	3,002,617	2,781,191	166	221,592

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 year ended 31 December 2013, year ended 31 December 2012 and year ended 31 December 2010, sensitivity analysis did not reveal any significant potential effect on the Group's equity:

<i>In thousands of GEL</i>	As at 31 December 2013	As at 31 December 2012	As at 31 December 2011
Maximum loss (VAR, 99% confidence level)	(589)	(183)	(734)
Maximum loss (VAR, 95% confidence level)	(413)	(130)	(520)

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.

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 40. Furthermore, many 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.

35 Financial and Other Risk Management (Continued)

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.

<i>In thousands of GEL</i>	Less than 1 year	More than 1 year	Total
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
31 December 2011			
Total financial assets	1,580,289	1,422,328	3,002,617
Total financial liabilities	1,896,863	884,328	2,781,191
Net interest sensitivity gap at 31 December 2011	(316,574)	538,000	221,426

At 31 December 2013, 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 1,800 thousand (2012: GEL 1,695 thousand; 2011: GEL 1,583 thousand;) higher, mainly as a result of lower interest expense on variable interest liabilities. Other comprehensive income would have been GEL 5,093 thousand (2012: GEL 4,951 thousand, 2011: GEL 1,256 thousand) higher, as a result of an increase in the fair value of fixed rate financial assets classified as available for sale.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 1,800 thousand (2012: GEL 1,695 thousand 2011: GEL 1,583 thousand;) lower, mainly as a result of higher interest expense on variable interest liabilities. Other comprehensive income would have been GEL 4,786 thousand (2012: GEL 4,926 thousand, 2011: GEL 1,239 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 rise 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 rise 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.

In addition, stress tests and what if scenarios are developed in accordance with Basel II requirements to ensure that the bank can withstand severe but probable stress scenarios. 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.

35 Financial and Other Risk Management (Continued)

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 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 ratios 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 2013 is summarized in the table below. The Bank introduced the ratio in 2012 therefore the comparative data is only for the year 2012:

35 Financial and Other Risk Management (Continued)

		As at 31 December	
		2013	2012
Net Stable Funding Ratio		118.6%	121.6%
<i>In thousands of GEL</i>	Factor	Amount	
Available stable funding		<u>3,410,696</u>	<u>2,952,368</u>
Capital: Tier 1 & Tier 2 Capital Instruments		898,278	737,179
Tier 1	100%	675,723	559,359
Tier 2	100%	222,555	177,820
Long Term Funding (year >= 1)		387,814	358,006
Long Term Borrowings (>=1 year)	100%	319,244	284,372
Subordinated debt not included in Tier 2	100%	34,314	13,120
Other funding (>=1 year)	100%	34,256	60,514
Other Funding		2,124,604	1,857,183
Total Corporate deposits	50%	409,769	401,239
Total SME deposits	80%	365,335	229,866
Total Retail deposits	80%	1,288,541	1,117,706
Short term Borrowings with remaining maturity (<1year)	50%	59,635	107,259
Subordinated Debt (<1 year)	50%	1,324	1,113
Required amount of stable funding		<u>2,874,587</u>	<u>2,427,415</u>
Long term Assets with remaining maturity >=1 year		2,293,969	1,884,688
Reserves in NGB (Stable part)	100%	273,267	256,157
Loans (>=1 year)	100%	1,775,280	1,401,093
Fixed and Intangible Assets(>=1 year)	100%	223,159	211,373
Other assets (>=1 year)	100%	22,263	16,065
Short term Assets with remaining maturity <1 year		551,225	515,816
Loans (< 1 year)	50%	551,225	515,816
Undrawn amount of committed credit and liquidity facilities		29,393	26,911
Unused credit lines and undisbursed amounts from loans	5%	9,890	8,979
Guarantees	5%	19,503	17,932

35 Financial and Other Risk Management (Continued)

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 102.5%, 102.0% and 108.4%, at the 31 December 2013, 2012 and 2011 respectively.

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 with residual maturity up to 6 months and off-balance sheet liabilities up to 6 months. As at 31 December the ratios were well above the prudential limit set by the NBG as follows:

	2013	2012	2011
Average Liquidity Ratio	34.0%	36.6%	33.5%

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 2013 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.

	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
<i>In thousands of GEL</i>					
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

35 Financial and Other Risk Management (Continued)

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

<i>In thousands of GEL</i>	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 maturity analysis of financial liabilities at 31 December 2011 is as follows:

<i>In thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	197,593	226,001	225,539	64,497	713,630
Customer accounts – individuals	528,762	457,578	166,794	6,737	1,159,871
Customer accounts – other	677,435	76,376	167,640	5,675	927,126
Other financial liabilities	6,582	1,382	3,414	358	11,736
Subordinated debt	19,318	21,870	109,269	59,874	210,331
Gross settled forwards	61,964	-	-	-	61,964
Performance guarantees	13,698	109,605	31,714	3,195	158,212
Financial guarantees	86,196	61,713	49,372	44,844	242,125
Other credit related commitments	199,054	-	-	-	199,054
Total potential future payments for financial obligations	1,790,602	954,525	753,742	185,180	3,684,049

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 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.

35 Financial and Other Risk Management (Continued)

The expected gap may be summarised as follows at 31 December 2013:

<i>In thousands of GEL</i>	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	

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

35 Financial and Other Risk Management (Continued)

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

<i>In thousands of GEL</i>	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	

35 Financial and Other Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2011:

<i>In thousands of GEL</i>	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	374,153	-	-	374,153
Due from other banks	769	40,173	-	40,942
Mandatory cash balances with National Bank of Georgia	250,067	-	-	250,067
Loans and advances to customers	351,624	468,693	1,188,428	2,008,745
Investment securities available for sale	266,436	-	-	266,436
Investment securities held to maturity	8,833	20,123	-	28,956
Finance lease receivables	3,315	6,534	12,130	21,979
Other financial assets	5,559	2,575	3,205	11,339
Total financial assets	1,260,756	538,098	1,203,763	3,002,617
Liabilities				
Due to Credit institutions	186,300	207,105	234,745	628,150
Customer accounts	253,706	69,822	1,675,728	1,999,256
Other financial liabilities	6,153	1,380	3,772	11,305
Subordinated debt	18,122	9,664	114,694	142,480
Total financial liabilities	464,281	287,971	2,028,939	2,781,191
Credit related commitments and performance guarantees				
Performance guarantees	5,426	-	-	5,426
Financial guarantees	1,708	-	-	1,708
Other credit related commitments	27,351	-	-	27,351
Credit related commitments and performance guarantees	34,485	-	-	34,485
Net liquidity gap at 31 December 2011	761,990	250,127	(825,176)	186,941
Cumulative gap at 31 December 2011	761,990	1,012,117	186,941	

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.

35 Financial and Other Risk Management (Continued)

Operating environment. Most of the Group's business is 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 2014: Understanding Regulations for Small and Medium-Size Enterprises" report published by the IFC and the World Bank, Georgia was ranked as the eighth (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 2014, Georgia was ranked as the number two reformer in the world. Georgia is also acknowledged to have low corruption levels as demonstrated by the Transparency International 2013 Global Corruption Barometer.

36 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 2011, 2012 and 2013.

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. Regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

<i>In thousands of GEL</i>	2013	2012	2011
Share capital	261,045	251,785	224,659
Retained earnings and other disclosed reserves	290,585	253,057	222,985
General loan loss provisions (up to 1.25 % of risk – weighted assets)	51,038	44,224	42,172
Less intangible assets	(18,197)	(14,048)	(6,380)
Less Investments into subsidiary companies and capital of other banks	(59,129)	(68,615)	(70,764)
Subordinated debt (included in regulatory capital)	131,312	99,733	79,239
Total regulatory capital	656,654	566,136	491,911
Risk-weighted Exposures			
Credit risk weighted assets (including off-balance obligations)	3,340,518	3,030,372	2,701,318
Currency Induced Credit Risk	1,321,561	1,232,923	1,118,611
minus general and special reserves	(166,377)	(137,411)	(65,889)
Risk-weighted assets	4,495,702	4,125,884	3,754,040
Tier 1 Capital adequacy ratio	10,6%	11,2%	8,5%
Total Capital adequacy ratio	14,6%	13,7%	13,1%

36 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 2013, 2012, 2011 are given in the tables below:

In thousands of GEL

Risk weighted Exposures

	2013	
	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
Reposessed 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

Risk weighted Exposures

	2012	
	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
Reposessed 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

In thousands of GEL

Risk weighted Exposures

	2011	
	Carrying Value	RW amount
Cash, cash equivalents, Interbank Deposits and Securities	916,545	115,689
Gross Loans and accrued interests	2,045,550	3,026,525
Reposessed Assets	36,054	36,054
Fixed Assets and intangible assets	174,549	168,169
Other assets	148,102	86,251
Total	3,320,800	3,432,688
Total Off-balance	666,067	387,241
minus general and special reserves	(65,889)	(65,889)
Total Amount	3,920,978	3,754,040

36 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 2012. The composition of the Bank's capital calculated in accordance with Basel II (Pillar I) is as follows:

<i>In thousands of GEL</i>	2013	2012
Tier 1 Capital	526,224	467,509
Tier 2 Capital	177,950	138,957
Regulatory capital	704,174	606,466
Risk-weighted Exposures		
Credit Risk Weighted Exposures	4,553,155	4,093,417
Risk Weighted Exposures for Market Risk	3,946	18,635
Risk Weighted Exposures for Operational Risk	343,892	343,018
Total Risk-weighted Exposures	4,900,993	4,455,070
Minimum Tier 1 ratio	8.5%	8.5%
Tier 1 Capital adequacy ratio	10.7%	10.5%
Minimum total capital adequacy ratio	10.5%	10.5%
Total Capital adequacy ratio	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 end of 2013, 2012 are given in the tables below:

<i>In thousands of GEL</i>	2013	
	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
Reposessed Assets	69,143	69,143
Fixed Assets and intangible assets	202,902	203,833
Other assets	153,663	214,198
<i>minus general provision, penalty and interest provision</i>	(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
<i>In thousands of GEL</i>	2012	
	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
Reposessed Assets	28,010	28,010
Fixed Assets and intangible assets	198,550	207,791
Other assets	156,259	192,909
<i>minus general provision, penalty and interest provision</i>	(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

36 Management of Capital (Continued)
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 Basle 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:

<i>In thousands of GEL</i>	2013	2012	2011
Tier 1 capital			
Share capital	259,123	247,644	218,479
Retained earnings and disclosed reserves	404,659	303,022	207,454
Less: Goodwill	(2,726)	(2,726)	(2,726)
Non-controlling interest	14,667	11,419	9,134
Total tier 1 capital	675,723	559,359	432,341
Tier 2 capital			
Revaluation reserves	50,840	41,939	33,162
General Reserve	40,403	36,148	31,829
Subordinated debt (included in tier 2 capital)	131,312	99,733	79,239
Total tier 2 capital	222,555	177,820	144,230
Total capital	898,278	737,179	576,571
Credit risk weighted assets (including off-balance obligations)	3,232,229	2,891,766	2,546,304
Less: General Reserve	(116,466)	(130,350)	(126,832)
Market Risk	19,779	25,977	19,237
Total Risk-weighted assets	3,135,542	2,787,393	2,438,709
Minimum Tier 1 ratio	4%	4%	4%
Tier 1 Capital adequacy ratio	21.6%	20.1%	17.7%
Minimum total capital adequacy ratio	8%	8%	8%
Total Capital adequacy ratio	28.6%	26.4%	23.6%

Following Basel I guidelines General Reserve is defined by the management as the minimum among the following:

- IFRS provisions created on loans without impairment trigger event
- 2% of loans without impairment trigger event
- 1.25% of total RWA (Risk Weighted Assets)

36 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 2013, 2012, 2011 are given in the tables below:

In thousands of GEL

Risk weighted Exposures

	2013	
	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
Reposessed assets	49,920	49,920
Fixed assets and intangible assets	225,885	223,159
Other assets	185,402	185,403
Total	4,607,944	2,916,917
Total Off-balance	656,386	315,312
<i>Less: Loan loss provision minus General Reserve</i>	<i>(116,466)</i>	<i>(116,466)</i>
Market Risk	19,779	19,779
Total Amount	5,167,643	3,135,542

In thousands of GEL

Risk weighted Exposures

	2012	
	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	2,536,697	2,145,081
Reposessed assets	56,316	56,316
Fixed assets and intangible assets	214,099	211,373
Other assets	107,156	107,157
Total	4,066,191	2,568,315
Total Off-balance	622,791	323,451
<i>Less: Loan loss provision minus General Reserve</i>	<i>(130,350)</i>	<i>(130,350)</i>
Market Risk	25,977	25,977
Total Amount	4,584,609	2,787,393

In thousands of GEL

Risk weighted Exposures

	2011	
	Carrying Value	RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale, Investment securities held to maturity	960,553	52,978
Gross loans and accrued interests	2,167,405	1,828,024
Reposessed assets	82,317	82,317
Fixed assets and intangible assets	176,669	173,941
Other assets	71,736	71,740
Total	3,458,680	2,209,000
Total Off-balance	727,598	337,304
<i>Less: Loan loss provision minus General Reserve</i>	<i>(126,832)</i>	<i>(126,832)</i>
Market Risk	19,237	19,237
Total Amount	4,078,683	2,438,709

37 Contingencies and Commitments

Legal proceedings. The Bank is a defendant in legal claims, however on the basis of its own estimates and both internal professional advice, 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, consequently 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 2013, 2012 and 2011 no provision for potential tax liabilities has been recorded.

Operating lease commitments. Where the Group is the lessee, as at 31 December 2013, the future minimum lease payments under non-cancellable operating leases over the next year amount to GEL 1,750 thousand (2012: 1,675 thousand; 2011: 1,760 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 2013, 2012 and 2011.

Credit related commitments. 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.

37 Contingencies and Commitments (Continued)

Outstanding credit related commitments and performance guarantees are as follows:

<i>In thousands of GEL</i>	2013	2012	2011
Performance guarantees issued	160,704	160,127	235,291
Financial guarantees issued	95,762	112,997	86,972
Undrawn credit lines	197,801	179,589	199,054
Letters of credit	133,603	88,698	66,091
Total credit related commitments and performance guarantees (before provision)	587,870	541,411	587,408
Provision for performance guarantees	(4,153)	(2,332)	(5,426)
Provision for credit related commitments and financial guarantees	(4,927)	(842)	(1,708)
Total credit related commitments and performance guarantees	578,790	538,237	580,274

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 2013 composed GEL 131,342 thousand (2012: GEL 124,448 thousand; 2011 GEL 101,301 thousand).

Fair value of credit related commitments and financial guarantees was GEL 4,927 thousand at 31 December 2013 (2012: GEL 842 thousand; 2011: GEL 1,708 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

<i>In thousands of GEL</i>	2013	2012	2011
Georgian Lari	218,553	194,178	164,997
US Dollars	299,190	279,563	318,830
Euro	42,388	36,431	42,509
Other	27,739	31,239	61,072
Total	587,870	541,411	587,408

Capital expenditure commitments. At 31 December 2013, the Group has contractual capital expenditure commitments amounting to GEL 2,365 thousand (2012: nil; 2011: 1,290 thousand).

38 Non-Controlling Interest

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

<i>In thousands of GEL</i>	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit or loss 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%	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:

<i>In thousands of GEL</i>	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/(loss)	Total comprehensive 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

38 Non-Controlling Interest (Continued)

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

<i>In thousands of GEL</i>	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit or loss 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:

<i>In thousands of GEL</i>	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/(loss)	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

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2011:

<i>In thousands of GEL</i>	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit or loss 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%	29	547	-
TBC Kredit LLC	Azerbaijan	25.00%	25.00%	94	4,693	-
United Financial Corporation JSC	Georgia	6.68%	6.68%	7	210	-
Bank Constanta JSC	Georgia	16.7%	16.7%	597	3,684	-
TOTAL				727	9,134	-

38 Non-Controlling Interest (Continued)

The summarised financial information of these subsidiaries was as follows at 31 December 2011:

	Current assets	Non- current assets	Current liabilities	Non- current liabilities	Revenue	Profit/ (loss)	Total compre- hensive income	Cash flows
<i>In thousands of GEL</i>								
TBC Leasing JSC	16,509	14,570	7,157	18,698	3,891	231	231	(793)
TBC Kredit LLC	34,513	16,428	9,814	22,050	6,915	375	375	1,662
United Financial Corporation JSC	747	4,074	983	322	3,406	111	111	(122)
Bank Constanta JSC	101,988	49,170	50,189	78,032	23,350	3,372	3,924	8,177
Total	153,757	84,242	68,143	119,102	37,562	4,089	4,641	8,924

39 Offsetting Financial Assets and Financial Liabilities

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

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instru- ments	Cash collateral received	
<i>In thousands of GEL</i>	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(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	123,381	32,795	90,586	-	-	90,586
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

39 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:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instru- ments (d)	Cash collateral received (e)	(c) - (d) - (e)
<i>In thousands of GEL</i>	(a)	(b)	(c) = (a) - (b)			
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

39 Offsetting Financial Assets and Financial Liabilities (Continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2011:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instru- ments (d)	Cash collateral received (e)	(c) - (d) - (e)
<i>In thousands of GEL</i>	(a)	(b)	(c) = (a) - (b)			
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	1,718	693	1,025	-	-	1,025
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	1,718	693	1,025	-	-	1,025
LIABILITIES						
Other financial liabilities	11,998	693	11,305	-	-	11,305
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	11,998	693	11,305	-	-	11,305

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.

40 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.

<i>In thousands of GEL</i>	2013	2012	2011
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial assets and due from banks	1,221	446	165
Fair value of Interest rate swaps, included in other financial liabilities	(4,405)	(7,139)	(5,152)
Total	(3,184)	(6,693)	(4,987)

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.

	2013		2012		2011	
	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
<i>In thousands of GEL</i>						
Foreign exchange forwards and gross settled currency swaps: fair values, at the balance sheet date, of						
- USD payable on settlement (-)	-	(91,590)	-	(36,428)	-	(53,968)
- USD receivable on settlement (+)	31,398	-	26,507	-	-	-
- GEL payable on settlement (-)	-	-	-	(26,508)	-	-
- GEL receivable on settlement (+)	-	(31,569)	41,676	-	8,407	-
- EUR payable on settlement (-)	-	-	-	(8,075)	-	-
- EUR receivable on settlement (+)	76,450	-	3,274	-	13,617	-
- Other payable on settlement (-)	-	(637)	-	-	-	-
- Other receivable on settlement (+)	17,169	-	-	-	32,109	-
Fair value of foreign exchange forwards and gross settled currency swaps	125,017	(123,796)	71,457	(71,011)	54,133	(53,968)
Net fair value of foreign exchange forwards and gross settled currency swaps	1,221	-	446	-	165	-

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 4,405 thousand (2012: negative GEL 7,139 thousand; 2011: negative GEL 5,152 thousand).

Information on related party balances is disclosed in Note 43.

41 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:

<i>In thousands of GEL</i>	31 December 2013				31 December 2012				31 December 2011			
	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												
<i>Investment securities available for sale</i>												
- Certificates of Deposits of National Bank of Georgia	-	321,140	-	321,140	-	187,551	-	187,551	-	168,537	-	168,537
- Ministry of Finance Treasury Bills	-	-	-	-	-	19,210	-	19,210	-	61,014	-	61,014
- Government notes	-	173,974	-	173,974	-	196,004	-	196,004	-	32,942	-	32,942
- Corporate shares (Visa Inc)	4,858	-	-	4,858	3,156	-	-	3,156	2,131	-	-	2,131
Foreign exchange forwards and gross settled currency swaps, included in other financial assets and due from banks	-	1,221	-	1,221	-	446	-	446	-	165	-	165
NON-FINANCIAL ASSETS												
- Premises and leasehold improvements	-	119,005	-	119,005	-	118,020	-	118,020	-	106,549	-	106,549
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	4,858	615,340	-	620,198	3,156	521,231	-	524,387	2,131	369,207	-	371,338
LIABILITIES CARRIED AT FAIR VALUE												
FINANCIAL LIABILITIES												
- Interest rate swap, included in other financial liabilities	-	4,405	-	4,405	-	7,139	-	7,139	-	5,152	-	5,152
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	-	4,405	-	4,405	-	7,139	-	7,139	-	5,152	-	5,152

There were no transfers between levels 1 and 2 during 2013 (2012: none, 2011: none).

41 Fair Value Disclosures (Continued)

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

<i>In thousands of GEL</i>	Fair value at 31 December			Valuation technique	Inputs used
	2013	2012	2011		
ASSETS AT FAIR VALUE					
FINANCIAL ASSETS					
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes	495,114	402,765	262,493	Discounted cash flows (“DCF”)	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	1,221	446	165	Forward pricing using present value calculations	Official exchange rate, risk-free rate
NON-FINANCIAL ASSETS					
- Premises and leasehold improvements	119,005	118,020	106,549	Market comparable assets	Comparable prices from less active markets
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS					
	615,340	521,231	369,207		
LIABILITIES CARRIED AT FAIR VALUE					
FINANCIAL LIABILITIES					
Other financial liabilities					
- Interest rate swaps	4,405	7,139	5,152	Swap model using present value calculations	Observable yield curves
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2					
	4,405	7,139	5,152		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2013 (2012: none; 2011: none).

41 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:

<i>In thousands of GEL</i>	31 December 2013				31 December 2012				31 December 2011			
	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	390,465	-	-	390,465	398,587	-	-	398,587	374,153	-	-	374,153
Due from other banks	1,708	-	-	1,708	29,542	-	-	29,542	40,942	-	-	40,942
Mandatory cash balances with the NBG	-	295,332	-	295,332	-	316,061	-	316,061	-	250,067	-	250,067
Loans and advances to customers:												
- Corporate loans	-	-	1,172,503	1,049,668	-	-	1,046,831	1,029,112	-	-	919,868	889,743
- Consumer loans	-	-	607,940	571,730	-	-	455,020	451,548	-	-	368,090	383,232
- Mortgage loans	-	-	519,180	491,136	-	-	375,406	372,230	-	-	356,354	362,347
- Small and micro loans	-	-	397,229	388,131	-	-	293,294	289,397	-	-	217,611	230,557
- Micro	-	-	193,784	196,395	-	-	134,010	141,570	-	-	80,114	84,410
- Others	-	-	103,896	104,652	-	-	85,449	86,343	-	-	58,386	58,456
Investment securities held to maturity	-	-	-	-	-	-	-	-	-	29,677	-	28,956
Investments in leases	-	35,613	-	35,613	-	26,377	-	26,377	-	21,979	-	21,979
Other financial assets	-	45,049	-	45,049	-	25,301	-	25,301	-	11,339	-	11,339
NON-FINANCIAL ASSETS												
Investment properties, at cost	-	86,480	-	83,383	-	34,928	-	34,305	-	37,966	-	27,082
TOTAL ASSETS	392,173	462,474	2,994,532	3,653,262	428,129	402,667	2,390,010	3,200,373	415,095	351,028	2,000,423	2,763,263
FINANCIAL LIABILITIES												
Due to credit institutions	-	565,806	-	565,806	-	627,123	-	627,123	-	628,150	-	628,150
Customer accounts	-	1,690,812	1,206,300	2,886,883	-	1,094,556	1,392,388	2,486,944	-	964,633	1,034,623	1,999,256
Debt securities in issue	-	4,474	-	4,474	-	-	-	-	-	-	-	-
Other financial liabilities	-	24,850	-	24,850	-	19,462	-	19,462	-	11,305	-	11,305
Subordinated debt	-	168,274	-	168,274	-	115,080	-	115,080	-	142,480	-	142,480
TOTAL LIABILITIES	-	2,454,216	1,206,300	3,650,287	-	1,856,221	1,392,388	3,248,609	-	1,746,568	1,034,623	2,781,191

41 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 2013 (2012: none; 2011: none).

42 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 2013:

<i>In thousands of GEL</i>	Loans and receivables	Available for sale assets	Finance lease receivables	Assets designated at FVTPL	Held to maturity	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

42 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 2012:

<i>In thousands of GEL</i>	Loans and receivables	Available for sale assets	Finance lease receivables	Assets designated at FVTPL	Held to maturity	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

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2011:

<i>In thousands of GEL</i>	Loans and receivables	Available for sale assets	Finance lease receivables	Assets designated at FVTPL	Held to maturity	Total
ASSETS						
Cash and cash equivalents	-	-	-	-	-	374,153
Due from other banks	40,942	-	-	-	-	40,942
Mandatory cash balances with the National Bank of Georgia	250,067	-	-	-	-	250,067
Loans and advances to customers	2,008,745	-	-	-	-	2,008,745
Investment securities held to maturity	-	-	-	-	28,956	28,956
Investment securities available for sale	-	266,436	-	-	-	266,436
Investments in leases	-	-	21,979	-	-	21,979
Other financial assets: - Other financial receivables	11,174	-	-	165	-	11,339
TOTAL FINANCIAL ASSETS	2,310,928	266,436	21,979	165	28,956	3,002,617
NON-FINANCIAL ASSETS	-	-	-	-	-	297,404
TOTAL ASSETS	-	-	-	-	-	3,300,021

As at 31 December 2013, 2012 and 2011, 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.

43 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 8% of ownership stake in the Bank are considered as Significant Shareholders. Included in key management personnel are members of the Supervisory Board and the Management Board and close members of the family. Other related parties include entities in which shareholders have significant influence.

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

<i>In thousands of GEL</i>	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	40	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:

<i>In thousands of GEL</i>	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 gains less losses/ (losses less gains)		(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/(loss) on derivative financial instruments	40	613	-

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

<i>In thousands of GEL</i>	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)

43 Related Party Transactions (Continued)

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

<i>In thousands of GEL</i>	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	40	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:

<i>In thousands of GEL</i>	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 gains less losses/ (losses less gains)		(106)	2	926
Fee and commission income		11	5	376
Administrative and other operating expenses (excluding staff costs)		17	133	-
Net gain/(loss) on derivative financial instruments	40	(3,804)	-	-

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

<i>In thousands of GEL</i>	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:

<i>In thousands of GEL</i>	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)

43 Related Party Transactions (Continued)

At 31 December 2011, the outstanding balances with related parties were as follows:

<i>In thousands of GEL</i>	Note	Significant shareholders	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)		14,711	2,283	6,933
Impairment provisions for loans and advances to customers		(213)	(35)	(262)
Derivative financial liability	40	5,152	-	-
Due to credit institutions (contractual interest rate: 0 - 13 %)		106,941	-	-
Customer accounts (contractual interest rate: 0 - 13 %)		3,899	3,491	13,204
Subordinated debt (contractual interest rate: 5 - 11 %)		62,325	-	-

The income and expense items with related parties except from key management compensation for the year 2011 were as follows:

<i>In thousands of GEL</i>	Note	Significant shareholders	Key management personnel	Other related parties
Interest income		3,328	259	276
Interest expense		19,856	342	428
Gains less losses from trading in foreign currencies		13	5	611
Fee and commission income		8	10	126
Administrative and other operating expenses (excluding staff costs)		55	317	-
Net loss on derivative financial instruments	40	(4,987)	-	-

At 31 December 2011, other rights and obligations with related parties were as follows:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel	Other related parties
Guarantees issued by the Group at the year end	-	-	7,049

Aggregate amounts of loans advanced to and repaid by related parties during 2011 were:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel	Other related parties
Amounts advanced to related parties during the year	1,435	1,448	12,467
Amounts repaid by related parties during the year	(1,422)	(645)	(9,580)

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

<i>In thousands of GEL</i>	2013		2012		2011	
	Expense	Accrued liability	Expense	Accrued liability	Expense	Accrued liability
Salaries and bonuses	8,783	3,798	7,256	3,983	7,903	3,162
Cash settled bonuses related to share-based compensation	1,692	1,692	676	432	1,942	1,725
Equity-settled share-based compensation	1,671	-	2,700	-	7,823	-
Total	12,146	5,490	10,632	4,415	17,668	4,887