თიბისი ბანკი
TBC BANK
On your side

2013
ANNUAL REPORT

BUSINESS REVIEW

BUSINESS REVIEW

In 2013 we continued on our path to sustainable growth with a clear strategic focus on core banking. We worked hard to reach significant milestones in developing the Bank's financial strength, operational capabilities and brand value. Our achievements are explored in greater detail throughout this Annual Report.

PERFORMANCE HIGHLIGHTS[a]

TBC Bank has delivered another year of robust financial performance in 2013. Total assets grew by 14.1%, reaching GEL 4,451.1 million, total loans increased by 16.6% to GEL 2,958.6 million, and total operating income for the year reached GEL 381.5 million, a 16.7% increase on the previous year. Profit for FY 2013 increased by 27.1%, amounting to GEL 124.3 million and leading to a return on average equity of 18.7%. Our portfolio remains well-diversified across customer segments, with a broad range of retail, corporate, SME and micro-finance loans across all regions and major industries in Georgia.

As a result of prudent risk management policies, TBC maintains a high quality loan portfolio with a ratio of non-performing loans (NPLs)[b] to total gross loans of 1.1% and an NPL plus restructured loans coverage ratio of 111%. TBC maintains robust capital and liquidity positions. At the end of 2013, the Bank had a BIS Tier 1 capital adequacy ratio of 22% and a total capital adequacy ratio of 29%. Our Basel III liquidity coverage ratio stood at 344%[c] and net stable funding ratio at 119%.

FINANCIAL HIGHLIGHTS | In millions GEL

	Total Operating Income	Operating Expences	Profit Before Tax	Profit for the Period
2013	381.5	198.6	139.9	124.3
2012	326.8	185.5	112.3	97.8
Change	16.7%	7.1%	24.6%	27.1%

	Total Assets	Gross Loans	Customer Deposits
2013	4,451.1	2,958.6	2,886.9
2012	3,899.7	2,536.7	2,486.9
Change	14.1%	16.6%	6.1%

[a] All figures are consolidated audited IFRS statements; all operational data includes Bank Constanta.
[b] Non-performing loans are defined as 90 days or more overdue.
[c] Liquidity coverage ratio calculated on a standalone basis per National Bank of Georgia (NBG) accounting standards.

ROAE	ROAA	Pre-provision ROAE	Cost to Income
18.7%	3.1%	25.2%	52.1%
2012: 18.6%	2012: 2.7%	2012: 24.1%	2012: 56.8%
Change 0.1%	Change 0.4%	Change 1.1%	Change -4.7%

Cost of Risk	NPL to Gross Loans	BIS Tier 1 CAR	BIS Total CAR
1.3%[a]	1.1%	21.6%	28.6%
2012: 1.0%	2012: 1.0%	2012: 20.1%	2012: 26.4%
Change 0.3%	Change 0.03%	Change 1.5%	Change 2.2%

SELECTED OPERATING DATA

	Branches	Cash-in Terminals (TBC Pay)	Employees	ATMs	POS Terminals	Remote Channel Transactions/Total Non-cash Transactions
2013	114	2,566	4,471	332	2,779	81%
2012	105	1,944	4,137	274	2,226	76%

CREDIT RATINGS

	FITCH Long-Term IDR	FITCH Short-Term IDR	MOODY'S Bank Deposits FC	MOODY'S Bank Deposits DC
2013	BB-	B	B1	Ba3

[a] Cost of risk equals provision for loan impairment divided by monthly average loans and advances to customers (before provision for loan impairment).

BUSINESS REVIEW

LETTER FROM THE CHAIRMAN

Favorable Operating Environment

TBC Bank operates in the fast growing, stable, and investor-friendly Georgian economy. Between 2003 and 2012, the country enjoyed robust economic growth at an average (CAGR) of 6.1% annually. In 2013, the country witnessed a peaceful handover of political power between two major parties through democratic parliamentary and presidential elections. The transition was exemplary throughout the region, although it resulted in a temporary economic slowdown which ended in the final quarter of 2013. As a result, the growth rate in Q4 2013 achieved a strong, single-digit rebound with 3.2% real GDP growth for the year. According to the International Monetary Fund (IMF), the economy is expected to achieve a growth rate of 5% in 2014.

Georgia has also continued to build upon its liberal economic reforms, and was once again acknowledged as the world's #2 Reformer and #8 for Ease of Doing Business according to the World Bank and IFC Doing Business Report 2014. Georgia was also recognized as one of the least corrupt countries in the world by the Transparency International 2013 report.

TBC Bank operates in a liberal, but strictly regulated banking environment. Conservative requirements established by the National Bank of Georgia (the NBG) ensure the stability and transparency of the financial system, and foster sustainable economic growth.

Strong Financial Performance

The year 2013 was another year of strong performance with solid growth in profits and revenues, all the while maintaining a resilient and prudent balance sheet. Our growth rate reached 17% and our profit for the year increased by 27% to GEL 124.3 million. Our return on average equity to the Bank's shareholders was strong at 18.7%[a]. As a result, the Bank distributed dividends equivalent to 25% of TBC's net profit.

TBC maintained its unmatched leadership in retail deposits, while achieving sustainable growth across all segments. Our market share in total loans and total deposits reached 27.2% and 29.5%, respectively.

Operating Achievements

We also have substantial achievements in our non-financial commitments crucial for our strategy execution. I would like to highlight three of them. We have initiated numerous projects with our partners aimed at further enhancing customer experience and strengthening our brand, the two competitive advantages that have always differentiated our Bank. We have accomplished considerable progress in multichannel capability development, achieving substantial growth in the number of active internet banking users. Our outstanding internet banking platform received seven prestigious awards from *Global Finance* magazine, of which two were global category awards for our consumer internet banking, making TBC Bank the first and only Georgian bank honored with this world-wide recognition. TBC Bank also introduced the SME Business Support Program, the first of its kind in the region, helping our SME customers gain access to necessary business knowledge and experience free of charge. These and other important projects implemented in 2013 are covered in greater detail throughout this Annual Report.

Leadership and Governance

I would also like to highlight our accomplishments with respect to corporate governance. TBC Bank has traditionally had high standards of corporate governance due to, among other reasons, our unique shareholding structure with a majority of shares held by four prominent international financial institutions (IFIs). Our Supervisory Board has also been majority-composed of directors nominated by our IFIs shareholders, who have contributed significantly to the Bank's success over the past years.

[a] ROAE based on consolidated IFRS data.

2013 was the first year following the implementation of Basel-related corporate governance practices aimed at further strengthening our already high standards. As a result, three new Supervisory Board committees – the Remuneration Committee, the Risks, Ethics, and Compliance Committee, and the Corporate Governance and Nomination Committee – were fully functional throughout the year.

In 2013, we also welcomed two new members to the Board – Mr. Nikoloz Enukidze, an independent board member who replaced David Khazaradze, and Mr. Nicholas Dominic Haag, an EBRD nominee board member who replaced Mike Hesketh, following the expiry of the previous members' terms. Both new members have years of experience in the financial services industry and joined our Bank after serving at such institutions as Barclays, ABN Amro, RBS, Banque Paribas, and Concorde Capital.

Following the appointment of a further independent member during the first quarter of 2014, we now have two independent and three IFI nominated members on the Board.

At the Management Board level, we welcomed Archil Mamatelashvili as the new Chief Risk Officer (CRO) of the Bank, following the resignation of Tea Lortkipanidze from this position. I am confident that Archil will successfully support our development plans with his extensive insight and expertise.

I would like to take this opportunity to thank Mike, David and Tea for their tremendous contribution and wish them every success in their future personal and professional endeavors.

Risk Management, Code of Ethics and Code of Conduct

During 2013, we continued to enhance our risk governance structure across the Group. With the assistance of the Risks, Ethics and Compliance Committee, the Board adopted a new risk strategy, set out a risk appetite statement and upgraded risk policies across all the major risks faced by TBC. With the help of Ernst and Young and within the scope of the Basel II/III implementation project, the Bank adopted the Internal Capital Adequacy Assessment Process and submitted the ICAAP document to the National Bank of Georgia for review far in advance of the respective deadline.

One of the most important responsibilities for me as Chairman, and for our Board as a whole, was to ensure that we foster the right employee culture in the Bank. The development of a new Code of Ethics and a Code of Conduct was an important milestone toward further enhancing our team-centric and customer-oriented corporate culture.

Social Responsibility

Corporate Social Responsibility is one of the areas in which TBC Bank has led the way in Georgia. In this regard, 2013 was no exception. We continued focusing on the community, workplace, marketplace and the environment. Our current projects include a number of cause and case-based initiatives, of which I would like to highlight the following:

Social Projects: we provide annual financial support to First Step Georgia, one of the biggest psychological aid centers in the country, which offers unique services to children with disabilities, most of whom are in need of urgent psychological and therapeutic treatment.

Culture and Arts: TBC Bank runs the annual literary award program SABA, one of the most respected and anticipated literary events in the country. TBC Bank founded the program in 2002 with 2013 marking the 11th ceremony. To date, the Bank has recognized more than 100 authors and awarded GEL 325,000 in prizes. TBC Bank is also a prominent supporter of one of the oldest-running musical events in Georgia – the Tbilisi Jazz Festival, in its 16th year in 2013, and the Black Sea Jazz Festival, in its 7th year in 2013.

Cultural Heritage and Tourism: TBC Bank actively participates in restoring and promoting sites of tourism and cultural heritage. We have financed the reconstruction of several historical and architectural monuments over the years. In 2013, TBC Bank started a two-year project to develop tourism infrastructure in the remote mountainous region of Tusheti.

These, and many other initiatives, continue in 2014.

Outlook

Looking ahead, we will continue to focus on our competitive strengths to further enhance our leading positions across all segments and continue delivering strong financial performance in 2014 and beyond.

Finally, I would like to express my gratitude to the Bank's outstanding management team led by our Chief Executive Officer, Vakhtang Butskhrikidze, and to our employees, who have supported TBC on its growth path to our current position of market leadership in many areas.

BUSINESS REVIEW

TBC AT A GLANCE

WE CREATE NEW OPPORTUNITIES FOR THE SUCCESS OF PEOPLE AND BUSINESSES

TBC Bank is a leading universal banking group in Georgia with an unmatched share of retail deposits at 33.1%[a], and the number two position in loans and deposits with total market shares of 27.2% and 29.5% respectively.

We service more than 970 thousand clients through a diversified multichannel platform that comprises 114 branches of TBC Bank and Bank Constanta, one of the largest networks of ATMs and POS terminals in Georgia, global award-winning internet banking, market-leading mobile, iPad and iPhone banking, a call center and TBC Pay terminals and kiosks.

We employ approximately 4,500 people[b] across our operations, more than half of whom have been with TBC for 4 or more years.

Multichannel Distribution Platform

TBC Bank's globally recognized multichannel distribution platform complements our full service model perfectly. While our branches are carefully designed with a primary focus on customer satisfaction, our leading multichannel distribution platform allows us to offload routine transactions from branches to e-channels. As a result, TBC has achieved the market-leading portfolio of gross loans per branch of GEL 25.2 million[c].

Our multichannel capabilities have been acknowledged by a wide range of local, regional and global publications including *Global Finance* magazine which named TBC Bank as "Best Consumer Internet Bank in Georgia" and "Best Integrated Consumer Bank Site in Central and Eastern Europe" for two consecutive years, and has received "Best Bill Payment & Presentment" and "Best Integrated Consumer Bank Site" consumer internet banking global awards from Global Finance magazine in 2013.

Customer Experience

We are market leaders in customer experience among Georgian banks. A "Mystery Shopping" study conducted by IPM named TBC Bank as the friendliest provider of banking services in the country. A TRI*M study conducted by TNS in July 2013 named TBC as leader in most aspects of customer experience. The same study showed that the gap between TBC Bank and its closest competitor had widened from two to six points since 2012.

TBC Bank Brand

TBC Bank has one of the best-known and most trusted brands in Georgia. This is largely due to our high quality customer experience, strong reputation, long-standing relationships with customers, traditional focus on social responsibility, and targeted marketing campaigns.

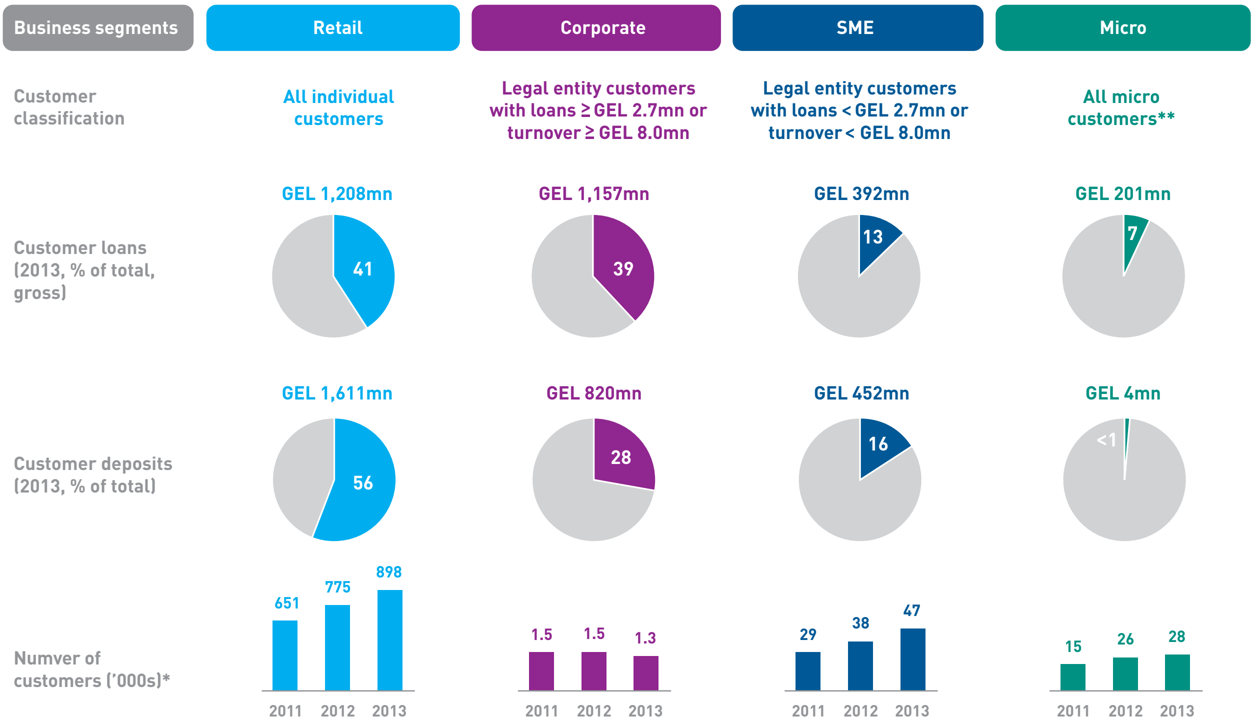
Over the years, we have received a number of prestigious industry awards, including being named as "Best Bank in Georgia" six times by *Global Finance* magazine, six times by *The Banker* and twice by *EMEA Finance* and *Euromoney*.

Products and Services

TBC Bank offers a wide range of banking products and services to its retail, corporate, SME and micro clients with the majority of our business concentrated in Georgia, which accounted for 98.3% of TBC's total assets and 97.4% of its net income as at and for the year ended 31 December 2013.

[a] All market share data is quoted according to the figures published by the NBG and include TBC Bank and Constanta.
[b] Including employees of all TBC Bank subsidiaries.
[c] Gross loan portfolio according to NBG accounting standards for comparison purposes. TBC Bank portfolio includes Bank Constanta.

TBC BANKING FRANCHISE OVERVIEW



Source: Company reports

Note: Customer classification criteria is converted to GEL with the exchange rate of 1USD=1.8 GEL

* Number of registered customers as at the reporting period.

** All business customers of Bank Constanta that have been granted loans by or have deposits with Bank Constanta in an amount of US$150,000 or less (in either case); Micro segment customers are calculated as Bank Constanta's number of borrowers that fall under micro segment. The remaining micro borrowers of Bank Constanta are added to the relevant retail and SME segments.

BUSINESS REVIEW

Retail Banking

The retail segment represents 55.8% of the total deposit portfolio and 40.8% of the total loan portfolio, making it the Group's largest segment in terms of both deposits and loans. We offer a full range of products to our retail customers, including current and saving accounts, term deposits, consumer, instant, installment and mortgage loans, credit cards and overdrafts. We serve more than 890 thousand retail customers through our extensive multichannel distribution network.

By 31 December 2013, the Group's retail loan portfolio reached GEL 1,207.5 million with the market share for individuals standing at 27.7%. At the same time, our market share in deposits of individuals stood at 33.1%.

Corporate Banking

Corporate Banking is a traditionally strong area of the Bank representing 39.1% of TBC's total loan portfolio and 28.4% of total deposits portfolio. We serve more than 1,300 corporate clients in Georgia, offering a wide range of products including balance sheet finance, trade finance, asset finance, project finance, working capital and syndicated loans.

SME Banking

SME banking accounted for 13.3% and 15.7% of TBC's total loans and total deposits portfolios respectively. TBC offers a diverse range of products and services to its SME segment customers, including trade finance, project finance, asset finance and working capital loans. We serve approximately 47,000 clients.

As at 31 December 2013, we held the second largest market share for legal entity loans and deposits of 26.9% and 26.0%, respectively.

Micro Banking (Bank Constanta)

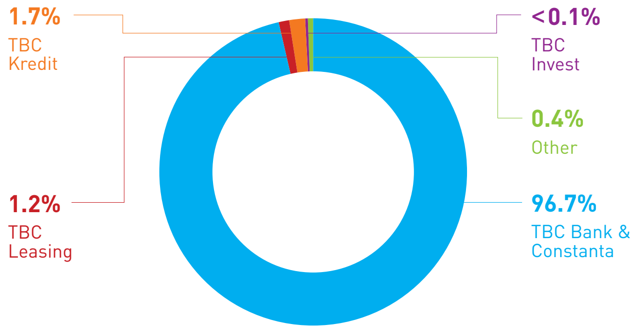
TBC Bank has been active in the micro banking segment through its 85%[a] owned subsidiary, Bank Constanta, since 2011. The micro banking segment is the smallest but the fastest growing segment of the Group, accounting for 6.8% and 0.2% of total loans and total deposits respectively. Total loans to the micro segment i`ncreased by 38% during 2013, while micro customer deposits increased by 35% year-on-year.

This segment offers various types of loan and deposit products tailored to client needs. As at 31 December 2013, we served approximately 28 thousand micro banking customers in Georgia through 55 branches of Bank Constanta.

Subsidiaries

In addition to its core banking business that TBC conducts within its retail, corporate, SME and micro segments through TBC Bank, Bank Constanta and TBC Kredit, TBC conducts supplementary operations through its other subsidiaries. These operations represented 3.3% of our total assets and 5.9% of our consolidated net income for the year ended 31 December 2013.

GROUP SHARES IN TOTAL ASSETS



TBC Leasing

TBC Bank offers leasing services in Georgia through its majority-owned subsidiary, TBC Leasing. These include finance leasing, leaseback, residual lease, and service leases. Leasing arrangements are primarily entered into with customers in the construction, medical, agriculture, transportation and service sectors.TBC Leasing is the market leader with 61% market share of the Georgian leasing financial services market. TBC Leasing's diversified customer base provides significant cross-selling opportunities and growth potential.

International Operations

Although the vast majority of TBC's operations (representing 98% of our assets) are conducted in Georgia, we also operate in Azerbaijan and Israel through our subsidiaries, TBC Kredit and TBC Invest respectively. Acquired in 2007, TBC Kredit is a non-banking credit organization focused on SME and retail customers, offering SME and retail loans, consumer loans and mortgages. TBC currently holds a 75% equity interest in TBC Kredit. With headquarters in Baku, TBC Kredit operates four additional branches throughout Azerbaijan.

TBC Invest is a wholly-owned subsidiary established by TBC Bank in 2011 to act as an intermediary, providing Israeli

[a] Shareholding provided as at 31 December 2013. At the date of publication of the Annual Report, TBC Bank holds 99.65% of shares at Bank Constanta.

clients with information and access to the Georgian banking system. It offers information to individuals and companies (Israeli businesses connected with Georgia and family offices) in Israel about TBC Bank's products and services, fees and interest rates. As at 31 December 2013, more than 560 customers had opened accounts through TBC Invest.

Other Subsidiaries

TBC Group comprises five more companies operating in related industries in order to support TBC's main activities. These include:

- JSC United Financial Corporation and TBC Pay LLC process card payments and supply payment collection services to providers of self-service machines and POS, WAP and Windows terminals.
- JSC Real Estate Management Fund, which manages property we have repossessed for future sale.
- Banking Systems Service Company (BSSC) LLC provides technical services and software support for electronic banking systems (such as POS and cash machines).
- A variety of products and brokerage services are provided to our Georgian customers through our wholly-owned subsidiary TBC Broker.

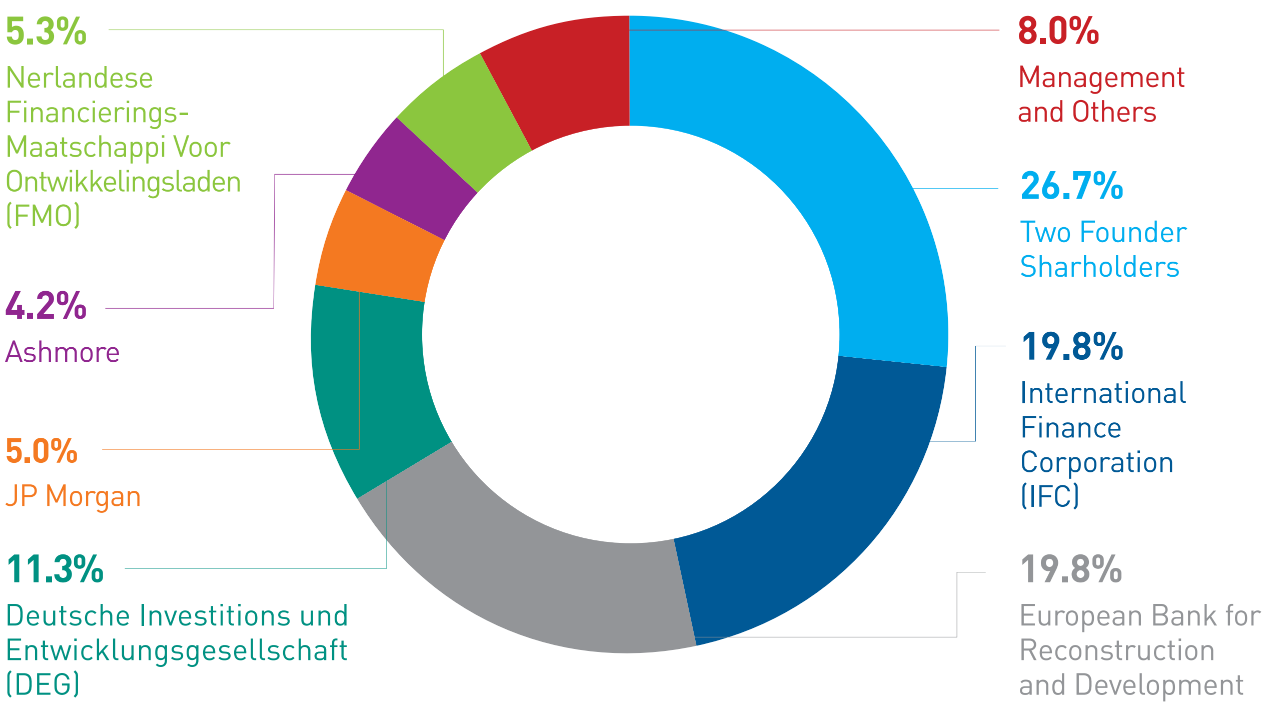
Shareholders

The Bank's shareholders include International Finance Corporation (IFC), Deutsche Investitions Entwicklungs-gesellschaft mbH (DEG), the European Bank for Reconstruction and Development (EBRD) and Nerlandese Financierings-Maatschappi Voor Ontwikkelingsladen N.V. (FMO), with a combined share capital of 56%. Other international institutional investors, J.P. Morgan Chase Bank, N.A., London Branch ("JPMorgan") and Ashmore Cayman SPC No. 2 Ltd. ("Ashmore"), in aggregate hold 9% of the Bank's shares. The two founding shareholders jointly hold 27% of the Bank's share capital, while the remaining 8% is owned by management and other minority shareholders.

Ratings

TBC Bank is rated by Fitch Rating Agency and Moody's Investor Services. The Bank's current ratings are BB- (Long Term IDR)/ B (Short Term IDR) assigned by Fitch and B1 (FC)/ Ba3 (LC) assigned by Moody's.

SHAREHOLDER STRUCTURE*



* Shareholding provided as at 31 December 2013. At the date of publication of the Annual Report, the Bank's shareholding structure is as follows: International Finance Corporation (IFC) – 19.7%, Deutsche Investitions Entwicklungsgesellschaft mbH (DEG) – 11.2%, the European Bank for Reconstruction and Development (EBRD) – 19.7%, Nerlandese Financierings-Maatschappi Voor Ontwikkelingsladen N.V. (FMO) – 5.2%, JP Morgan – 4.9%, Ashmore – 4.2%, two founding shareholders – 26.5%, Voor Ontwikkelingsladen N.V. (FMO) – 5.2%, JP Morgan – 4.9%, Ashmore – 4.2%, two founding shareholders – 26.5%, management and other minority shareholders – 8.7%. These changes were due to issue of shares under the management incentive scheme.

BUSINESS REVIEW

HISTORY

TBC Bank was founded in December 1992 by Mamuka Khazaradze and Badri Japaridze, who currently hold 27% of the Bank's shares. TBC Bank's longstanding relationships with International Financial Institutions (IFIs) began in 1998 when the Bank signed two agreements for credit lines dedicated to SME financing with IFC and DEG. IFC and DEG subsequently became shareholders of TBC Bank in 2000. The EBRD, FMO, JP Morgan and Ashmore acquired shareholdings in the Bank during 2009. These shareholders have been important partners and contributors to the Bank's development and success.

TBC Bank launched its leading retail business line in 2006. In May 2011, we acquired the fastest-growing microfinance bank in Georgia through a successful acquisition of an 80% shareholding in Bank Constanta. The microfinance segment is now one of the key growth drivers for the Bank.

TBC Bank Milestones

1992 TBC Bank was establishes with $500 initial capital. The Bank was focused on the corporate segment with emphasis on SMEs.

1998 TBC Bank enters export/import financing operations segment.

2000 IFC and DEG acquire a combined 20% of TBC's share capital and become the Bank's first IFI shareholders. TBC Bank becomes the first Georgian company to obtain an international rating.

2001 TBC Bank launches its first internet banking service.

2002 The Banker Magazine, a Financial Times Group publication, names TBC Bank as "The Bank of the Year 2002 in Georgia", the first such international recognition for the Bank.

2004 Non-banking operations, through TBC Leasing, are launched by the Bank (which later became market leader with 61% market share in 2013).

2006 EBRD acquires 10% shareholding in TBC Leasing.

CITI Bank provides a USD 35 million unsecured loan to TBC Bank. This was the largest line of credit ever provided by a foreign commercial bank to a Georgian bank.

TBC Bank launches retail banking offering, with a retail product development and marketing strategy implemented with support from BBDO (marketing) and SENTEO (consulting).

2007 TBC's total assets exceed USD 1 billion.

2008 TBC acquires 75% shareholding in TBC Kredit (formerly SOA Kredit), a non-banking credit institution in Azerbaijan.

2009 TBC Bank broadens its shareholder base with EBRD, FMO, JP Morgan and Ashmore becoming shareholders in TBC Bank, and IFC and DEG contributing additional capital.

2011 The Banker Magazine names TBC Bank as the "Bank of the Year 2011 in Georgia" for the sixth time – making this the greatest number of such awards for any bank in Georgia.

TBC Invest establishes as representative office in Israel that acts as an intermediary between potential future clients and the Bank.

TBC acquires 80% shareholding in Bank Constanta, which specializes in microfinance.

2012 TBC Bank celebrates its 20th anniversary.

TBC Bank celebrates 5 years of market leadership in Retail Deposits with a 35% market share at the end of the year.

TBC Bank raises GEL 192 million in new financing through various equity and debt transactions, attracting new investors to Georgia and to its portfolio.

TBC Bank launches a number of key strategic initiatives:

- Multichannel distribution systems and now globally recognized services: new Internet & Mobile banking (iPhone, iPad, Android, Blackberry applications, PDA mobile banking);
- "Lean Banking" project to increase efficiency throughout the distribution network;
- CRM implementation project with industry-leading Oracle Siebel;
- Basel II/III implementation project with support from Ernst & Young.

2013 TBC Bank submits its ICAAP report to the NBG

TBC Bank's new internet banking platform gains two global awards from Global Finance Magazine.

TBC Bank launches its SME Business Support Program, with support from IFC and ADB.

TBC Bank launches its ground-breaking Sensory marketing project, which creates a unique branded customer experience in its branches.

BUSINESS REVIEW

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Our operating environment during 2013 remained favorable. During the first nine months of 2013, Georgia underwent a process of political transition that began after the exemplary parliamentary elections of October 2012, and ended with the presidential elections in October 2013. Following the presidential elections, we witnessed increased confidence and accelerated business activity in Q4 2013 along with resumed government spending.

Consequently, during the first 9 months of the year, we experienced a slowdown in economic growth (1.7% real GDP growth rate). This largely finished in Q4 2013, which saw a GDP growth rate of 7.1%, translating into FY 2013 real GDP growth of 3.2%. This had a positive impact on the banking sector in Georgia and on our performance during 2013 as a whole, as well as in the fourth quarter of the year.

During 2013, Georgia strengthened its ties with the EU by initialing the EU-Georgia Association Agreement in November 2013, which includes the Deep and Comprehensive Free Trade Area agreement with the EU, and continued to implement economic reforms vital to the country's sustainable development.

In 2013, Georgian banking sector loans increased by 21% to GEL 10.6 billion, driven by a 29% increase in total individual loans and a 15% increase in total corporate loans. During the same period, total customer deposits increased by 27% to GEL 9.7 billion with individual and corporate deposits increasing by 24% and 29%, respectively. The Georgian banking sector continues to be well regulated and highly capitalized with prudent liquidity levels and healthy asset quality. As at 31 December 2013, total equity to assets for the sector stood at 16.8%, with liquid assets to total liabilities at 37.3% and overdue loans over gross loans at 2.2%. The de-dollarization trend continued throughout the year with foreign currency deposits as a proportion of total deposits falling to 60%, from 64% at end-2012.

During 2013, we maintained our leading position in the Georgian banking sector with the largest market share in retail deposits of 33%[a]. Our market share in total assets and total loans stood at 25% and 27%, respectively. Throughout this year, our gross loan portfolio increased by 17% to almost GEL 3 billion, whilst our total customer deposits grew by 16% to GEL 2.9 billion.

In line with our strategy, our focus on retail, SME and micro segments continued, resulting in steady growth of these segments within our total loan portfolio. By the end of the year, our retail portfolio became the largest segment in our total loan portfolio. During 2013 we grew our retail loans by 27%, SME by 33%, micro loans by 38% and corporate loans by 1%.

Our Net Interest Margin for 2013 was 8.4%, driven by robust liquidity management and balanced segment exposure. During the year we successfully managed to reduce our cost of funding to 5.9%, from 7.1% in the previous year.

Non-interest income increased by GEL 10.7 million, or 12% compared to the previous year, while operating expenses increased at a slightly lower rate by 7%, translating into a reduced cost to income ratio of 52.1%, compared to 56.8% for the year ended 31 December 2012. The cost of risk increased slightly by 0.2 percentage points to 1.2%, compared to 1.0% in the previous year. However, we continue to have one of the lowest Non-Performing Loans (NPLs) of 1.1%, defined as loans overdue for 90 days or more, and

[a] All market shares based on data published by the NBG, unless otherwise stated.

comfortable reserve coverage for the NPLs plus restructured loans at 111%.

As a result, in 2013, we recorded a profit of GEL 124.3 million, compared to GEL 97.8 million in 2012, delivering a return on average equity and a return on average assets of 18.7% and 3.1%, respectively.

Our branch network including Bank Constanta reached 114, an increase of 9 branches compared to 2012. More importantly, we continue to have the most productive branch network with a higher portfolio per branch than any other bank in Georgia. Along with branch network growth, we remain committed to alternative channel development. Our network of cash machines and POS terminals reached 2,566 and 2,779, respectively, by the end of 2013.

Significant milestones have also been achieved in electronic channel development, substantially increasing our internet, mobile, iPhone, iPad and other forms of e-banking application. We have approximately 130,000 and 33,000 active users of our internet and mobile banking services, respectively. During 2013, the number of transactions performed by internet and mobile banking increased by 47% compared to 2012. Consequently, Internet and mobile banking transactions represented 31% of total transactions[a] during 2013, compared to 25% in 2012.

Despite its relatively recent launch in 2012, our internet banking has received a number of international awards of excellence, of which we are very proud. In 2013 Global Finance Magazine awarded us the title of "Best Internet Bank in Georgia" for the second consecutive year. In addition, we were honored to receive global recognition for our Internet banking platform in 2013 through the following nominations: "The Best Bill Payment & Presentment in the World" and "The Best Integrated Internet Bank Site in the World".

In 2013, our client base grew by 16% to approximately 970 thousand by the end of the year. However, continued growth in our customer base had no effect on the quality of our customer experience, which remained superior to our competitors' in most areas.

From the beginning of 2014, the composition of the Management Board was also changed with the appointment of Archil Mamatelashvili as CRO, succeeding Tea Lortkipanidze. Tea has played a significant role in TBC's development since its early stages and I would like to thank her for her invaluable contribution to the Bank's expansion and progress through all these years. Moreover, I would like to welcome Archil to our team. With his substantial skills and experience, I am sure that Archil will play an important role in the Bank's future success.

In addition to the multichannel and customer experience initiatives discussed above, I would also like to mention the following initiatives which will also enable us to continue enhancing our leading positions on the market.

- We introduced the SME Business Support Program "7 steps to success", providing our business customers with access to tailored business tools, information, advice and training free of charge as an added value service from TBC Bank. The Program was developed with support from IFC and ADB, making us the first and only bank in the Caucasus region to provide such services.

- In 2013, we completed the implementation of a best-in-class customer relationship management (CRM) system acquired from Siebel by Oracle, the world's most complete CRM solution[b]. This initiative will enable us to adapt our products and services to each customer's needs, which should help to further enhance our efficiency, effectiveness and customer experience.

- During 2013, risk management remained one of our key focus areas. We continued the Basel implementation project, under the scope of which we also implemented the internal capital assessment process and submitted the ICAAP document, currently under review, to NBG well before the Regulator's deadline.

Going forward, we expect economic development to gain speed during 2014 and remain confident in our ability to deliver strong financial results, while remaining focused on superior customer experience, the strongest brand and the best multichannel capabilities in Georgia.

[a] Total transactions include transactions made in branches, through call center, internet banking, mobile banking, cash-in terminals, as well as direct debits and standing orders.
[b] Based on the Oracle Siebel official webpage.

BUSINESS REVIEW

OPERATING ENVIRONMENT AND MARKET OVERVIEW

Fast growing and investor friendly economy strategically located at a trading gateway between Europe and Asia

TBC Bank operates in a dynamic economic environment which saw continued growth in 2013. According to Geostat, real GDP in Georgia grew by 7.2% in 2011, 6.2% in 2012 and an estimated 3.2% in 2013, driven by rising exports of goods and services, an increase in tourism and government investment in domestic infrastructure.

While the growth rate slowed briefly in 2013, following the exemplary transition of political power, the country is expected to rebound with another year of accelerated GDP growth with an IMF estimate of 5%[a].

Georgia has an outstanding record for economic reform, liberalization and transparency. It is internationally recognized as a country with a favorable investment environment, having been ranked in recent World Bank & IFC Doing Business reports as one of the ten easiest countries in the world in which to do business, and one of the leading reformers in the world.

Located in the Caucasus region, Georgia's position makes it the most convenient route between Europe and Central Asia, a fact which has supported significant diversification of its trade and other relationships over recent years. The country has the potential to develop as a hub for the services sector in the region, not limited to trade but also for financial services, healthcare, education and other services. Georgia is showing strong growth as a tourist destination, with a 23% increase in visitors[b] recorded in 2013.

Georgia plays an active role in international organizations and has good relationships with institutions such as the World Bank, the IMF and the European Bank for Reconstruction and Development. The country is in the process of concluding its Association Agreement with the European Union, which it aims to sign by June 2014. The Association Agreement, together with the formation of the EU-Georgia Deep and Comprehensive Free Trade Area, is an important milestone toward gaining access to key EU markets, achieving greater economic stability and creating more opportunities for business and trade development in the country[c].

In 2013, the composition of Georgia's GDP was well-diversified, with no industry sector accounting for more than 18% of GDP. According to Georgia's Ministry of Finance, in 2013, Georgia's fiscal deficit, as a percentage of GDP, decreased to 2.7% from 2.8% in 2012 and 3.6% in 2011. Exports of goods and services increased by 22.4% between 2012 and 2013 and FDI increased in 2013 by 0.3% to USD 914 million, compared to USD 912 million in 2012 and USD 1,117 million in 2011. Georgia's current account deficit for 2013 decreased to USD 950.9 million, compared to USD 1,854.0 million in 2012 and USD 1,840.5 million in 2011.

The exchange rate of USD/GEL stood at 1.7363 at the end of 2013 compared to 1.6567 at the end of 2012, reflecting the Georgian Lari's depreciation against the U.S. Dollar during the period. The depreciation is believed to be attributable to domestic factors that were subsequently stabilized by the intervention of NBG. International reserves stood at the prudent level of USD 2.8 billion, sufficient to sustain the domestic currency. In 2013, inflation reached 2.4%, compared to negative inflation of 1.4% in 2012. In 2013 Georgia also maintained low debt to GDP ratios with total public debt to nominal GDP standing at 34.5%, and external public debt to nominal GDP at 27.0%.

Georgian Banking Sector

Strong growth in the Georgian banking sector is set to continue as the country is underpenetrated in terms of banking services and has the potential for sustained expansion. The ratio of bank loans to GDP stood at 39.4% in 2013, which is low compared to other similar markets, such as Poland and Turkey, where this ratio is 58%.

[a] The International Monetary Fund real GDP growth forecast is 5%, while the World Bank forecast stands at 6.3%.
[b] Georgian National Tourism Administration.
[c] Ministry of Economy and Sustainable Development of Georgia.

The banking sector operates within a stable framework and the NBG enforces modern and stringent regulations, including high capital and liquidity requirements. The NBG is gradually introducing reforms to create a more advanced risk-based approach to supervision and further harmonize its regulations with relevant EU directives and Basel II/III principles.

The banking sector is well capitalized, with high liquidity and healthy assets. Its liquidity ratio, defined as liquid assets to total liabilities, was up by 1.5% to 37.3% as at 31 December 2013, primarily due to accelerated business activities and lending in Q4 2013. According to the World Bank data, in 2012 Georgia had one of the smallest percentages of non-performing[a] loans in total gross loans among all eastern European countries. The de-dollarization trend continued in 2013, with foreign currency deposits accounting for 60% of total deposits at the end of 2013, compared to 64% the previous year. NBG's refinancing rate decreased during 2013 to 3.75%, compared to 5.25% at the end of 2012, mainly due to NBG's intention to boost lending and economic activities in the country.

During 2013, there were 21 commercial banks and foreign bank branches operating in Georgia, 20 of which (including two branches of foreign banking institutions) had foreign capital participation. The Georgian banking sector's total assets (including both domestic commercial banks and branches of foreign banks located in Georgia) was GEL 17.3 billion, compared to GEL 14.4 billion at 31 December 2012. At 31 December 2013, the five largest banks accounted for approximately 77.3% of the Georgian banking sector's total assets.

In 2013, loans in the Georgian banking sector increased by 21.0% to GEL 10.6 billion, as a result of the 29.4% increase in total individual loans and 14.7% increase in total legal entity loans. During the same period, total customer deposits increased by 26.5% to GEL 9.7 billion, with individual and legal entity deposits increasing by 24.4% and 28.7% respectively. The Georgian banking sector is prudently capitalized with its capitalization ratio, defined as total equity divided by total assets, standing at 16.8%.

[a] Non-performing loans according to the World Bank definition.

KEY STRENGTHS

We believe that TBC is differentiated by a number of key strengths that will enable us to maintain and strengthen our position as one of the leading Georgian banks:

Leading Positions in an Attractive Market Poised for Profitable Growth

TBC Bank is one of Georgia's two leading banks, which at the end of 2013 collectively held more than 59.9% of the country's loans and deposits. According to NBG, the total combined assets of TBC Bank and its subsidiary, Bank Constanta, amounted to GEL 4,361 million at end of the year, more than three times the assets of the next largest bank in Georgia. At 31 December 2013, TBC was Georgia's largest bank in terms of retail deposits, with a 33.1% market share, and was the second largest bank in Georgia in terms of retail and legal entity loans, with 27.7% and 26.9% market shares respectively. In terms of total assets, we hold a 25.3% share of the market.

The environment in which TBC operates continues to become stronger and is poised for profitable growth. Over the past 5 years, Georgia's real GDP has grown by a 3.7% compound annual rate, and real GDP growth in 2014 has been forecast to be 5% by the IMF and 6.3% by the World Bank. Georgia has an international reputation as a country with a favorable investment environment, ranked as one of the ten easiest countries in the world in which to do business and one of the leading reformers in the world in recent World Bank and IFC Doing Business Reports. TBC has benefited from Georgia's recent strong economic performance, and is well placed to continue to take advantage of the country's projected growth due to our strong market share across business segments, focus on continued product development, and its award-winning distribution platform and multichannel capabilities.

Strong Track Record of Growth and Profitability

The successful execution of TBC Bank's strategy has driven strong growth and profitability, allowing us to maintain robust margins despite increasing overall margin pressure in the market. The CAGR of the aggregate value of TBC Bank's total loans to customers for the three years ended 31 December 2013 was 24.1%. In the same three-year period, TBC Bank achieved a CAGR of the aggregate value of its total deposits of 28.3%, and a net income CAGR of 36.0% whilst maintaining a high average ROE of 19.7%. TBC also maintained strong margins while achieving this growth, recording net interest margins of 8.4%, 7.7% and 8.8% in the years ended 31 December 2013, 2012 and 2011, respectively.

Business Model Focused on Core Banking Activities in Georgia

TBC Bank primarily operates in Georgia, and local operations accounted for 96.8% of our total interest income for the year ended 31 December 2013. We have built on our expertise and position in the Georgian market and created a streamlined business with a clear strategic focus on our local core banking activities. The majority of TBC Bank's subsidiaries operate in the financial services sector. This business structure clearly differentiates us from other diversified banking groups in Georgia and enables us to remain focused on banking activities. This, in turn, enables TBC to maintain a straightforward and resilient balance sheet and a stable, customer-focused source of funding.

Strong Brand, Superior Customer Experience and an Award-winning Franchise

TBC Bank is one of the best known and trusted brands in Georgia. This comes partly as a result of high customer experience standards, a focus on social responsibility and targeted marketing campaigns. According to internal and external research, TBC Bank maintained market leading positions in customer experience in 2013. A "Mystery Shopping" study conducted by IPM named TBC Bank as the friendliest provider of banking services in Georgia. A TRI*M study[a] conducted by TNS in July 2013 named TBC Bank as a leader in many areas of customer experience. TBC Bank also conducts regular loyalty surveys of randomly chosen active (mass retail) customers. In the most recent these survey, which measures the likelihood that a customer would recommend TBC to a friend using the Net Promoters Score (NPS)[b] methodology, TBC Bank achieved a net score (calculated as the percentage of loyal, enthusiastic customers minus the percentage of dissatisfied customers) of 65% as at 31 December 2013, compared to 57% as at 31 December 2012.

Leading Multichannel Distribution Platform

TBC has the most productive, modern and aesthetically appealing branch network in the Georgian market. At the end of 2013, TBC's portfolio of gross loan per branch of GEL 25.2 million was higher than any other Georgian bank, and its portfolio of deposit per branch and operating income per branch of GEL 25.1 million and 3.1 million, respectively were also significantly higher than any other Georgian bank. TBC Bank gives significant attention to the appearance of its branches, with lighting, color and layout specifically designed to maximize customer satisfaction. The Bank also recently introduced sensory marketing in our branches, which includes scent and audio marketing designed to appeal emotionally to customers, and a digital signage project to improve advertising effectiveness in branches.

TBC Bank's internet-based banking services and other remote access channels are designed to complement our branches. We have continuously invested in developing innovative products and efficient new client servicing capabilities, including cash-in terminals and e-channels (such as internet banking and mobile banking), and a call center. The Bank's strong multichannel capabilities have been acknowledged by Global Finance magazine, which named TBC Bank as "Best Consumer Internet Bank in Georgia" and "Best Integrated Consumer Bank Site in Central and Eastern Europe" in 2012. In 2013, TBC Bank received consumer internet banking awards for "Best Bill Payment

[a] The TRI*M (measuring, managing and monitoring) Index is a single number score that measures the level of customer retention through standardized indicators such as overall performance, likelihood of repurchase, likelihood to recommend and competitive advantage.

[b] The Net Promoter Score, or NPS®, is based on the fundamental perspective that every company's customers can be divided into three categories: Promoters, Passives, and Detractors. To the question " How likely is it that you would recommend [your company] to a friend or colleague?", customers respond on a 0-to-10 point scale and are categorized as follows: Promoters (score 9-10) are loyal enthusiasts who will keep buying and refer others, fueling growth; Passives (score 7-8) are satisfied but unenthusiastic customers who are vulnerable to competitive offerings; Detractors (score 0-6) are unhappy customers who can damage your brand and impede growth through negative word-of-mouth. The NPS is calculated by subtracting the percentage of Detractors from the percentage of Promoters.

& Presentment" and "Best Integrated Consumer Bank Site" globally from Global Finance magazine. The Bank continues to implement new ways of delivering its products and services, particularly through remote access channels, minimizing cost and unnecessary branch network expansion.

Resilient and high quality balance sheet

TBC's primary source of funding is deposits. In 2013, customer deposits accounted for 77.6% of total liabilities, of which retail deposits accounted for 55.8%. TBC's gross loan to deposit ratio was 102.5% by the end of the year.

TBC has a well-diversified loan portfolio split across its segments, with retail, corporate, SME and micro loans accounting for 40.8%, 39.1%, 13.3% and 6.8% of total gross loans, respectively. We operate across all regions and major economic and industry sectors in Georgia.

As a result of prudent risk management policies, TBC maintains a high quality loan portfolio. As at 31 December 2013, our ratio of NPLs to total gross loans was 1.1% and ratio of Restructured Loans[a] to total gross loans was 3.7%. In addition, our NPL plus Restructured Loan coverage ratio is one of the highest in the industry at 111% as at 31 December 2013.

TBC has a strong capital base with a tier 1 capital adequacy ratio of 21.6% and a total capital adequacy ratio of 28.6% as at 31 December 2013, in line with BIS Guidelines.

As at 31 December 2013, TBC had a tier 1 capital adequacy ratio of 10.6% and a total regulatory capital adequacy ratio of 14.6%, calculated in accordance with NBG methodology. TBC's capital ratios are higher than Basel II/III minimum requirements, as adopted by the NBG under a stricter local methodology, with a tier 1 capital adequacy ratio of 10.7% and a total regulatory capital adequacy ratio of 14.4% as at 31 December 2013 calculated under this methodology.

Experienced management team and high quality corporate governance

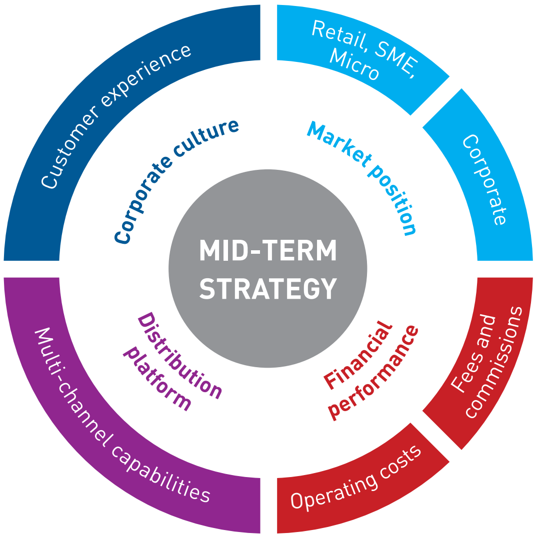
TBC has an experienced management team with a proven track record of leading the Bank's operations. The average length of service of the seven members of our Management Board is 11 years. In addition to this, TBC Bank continues to benefit from the participation and expertise of its IFI shareholders, DEG, the EBRD, FMO and the IFC, who collectively hold 56% of the Bank's shares. The IFI Investors have provided strategic assistance regarding TBC Bank's wholesale funding, credit recovery and risk management strategies, and are represented on the Supervisory Board.

Having IFI Investors as shareholders of the Bank has supported the implementation and maintenance of high corporate governance standards. TBC is a party to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia in September 2009, which was drafted with the guidance of the IFC, one of our shareholders, based on internationally recognized principles of good corporate governance. Since the implementation of the Basel II project in 2012, TBC Bank further strengthened its corporate governance in order to comply with the relevant Basel standards.

[a] Ratio of Restructured Loans defined as the principal amount of all Restructured Loans less Restructured Loans in respect of which principal and interest payments have been met for a period of 12 months.

BUSINESS REVIEW

STRATEGY



Market position

- Grow market share in the Retail, SME and Micro segments
- Expand product offering and sales capabilities to large corporate businesses

Financial performance

- Increase fee and commission income from core banking franchise
- Focus on continuous cost efficiency improvements

Distribution platform

- Further develop award-winning multi-channel distribution platform capabilities

Corporate culture

- Build value by delivering superior customer experience, which translates into customer loyalty and profitability

TBC Bank's overall strategy is to deliver strong, sustainable growth and profitability without compromising asset quality or risk management processes. This strategy is focused on the following areas:

We will continue to build on our competitive strengths of superior customer experience, innovative multi-channel facilities, a strong brand, an award-winning franchise, and our highly professional workforce in order to achieve our strategic objectives of becoming:

- Georgia's largest Retail bank, SME and Micro bank
- The core bank for large corporate businesses

Grow Market Share in the Retail, SME and Micro-finance Segments

To sustain our growth and profitability, we will continue to grow market share in the high margin, high growth retail, SME and micro-finance segments.

To capitalize on TBC's already strong position in the Georgian retail market, we will leverage our strong reputation, high quality customer experience and refined multichannel capabilities – the factors we believe differentiate TBC. We are also striving to become the clear market leader in Georgia's micro-finance and SME segments, driven by TBC's strong SME capabilities, diversified product range and value-added services, as well as the expertise and reach gained by our acquisition of Bank Constanta. Synergies with Bank Constanta will significantly enhance TBC's geographic reach.

Expand Product Offerings to Large Corporate Businesses

We plan to introduce new products and services that complement our current offering to corporate clients, including foreign currency forwards and swaps, hedging, insurance packages and escrow and other custodian services, and strengthen our capabilities in trade and product finance. Our innovative services, individual client approach and established reputation as one of the most trusted business partners in Georgia will not only help strengthen TBC Bank's relationships with its substantial existing corporate client base, but also attract additional clients.

Increase Fee and Commission Income From Core Banking Products

We will further diversify our revenue base by increasing non-interest income sources. We believe this will help TBC sustain its profitability by becoming less reliant on interest margins, which have suffered from a declining trend across the entire Georgian banking sector. Accordingly, our strategy is to increase our fee and commission income generating capabilities by growing fees from existing sources, such as debit and credit card operations, guarantees, settlement transactions and trade finance, and by introducing new commission-based products and services related to our core banking business. These initiatives include contactless debit and credit cards (which increase the number of card transactions), bancassurance sales of third-party insurance products, new money transfers, mobile payments and advisory and other services for our corporate and other key clients.

Further Develop Award-winning Multichannel Distribution Platform

We believe that our multichannel capabilities are one of our distinguishing features. In order to fully develop this competitive advantage, we intend to continue to improve and enhance our branch network with the aim of continuing to deliver a superior customer experience.

We also plan to further strengthen our Internet Banking, ATM, POS, TBC Pay cash-in terminal and other kiosk banking capabilities as part of our multichannel development initiative.

Build Value by Delivering a Best-in-class Customer Experience, Which Translates into Customer Loyalty and Profitability

We believe that customer experience is vital to our competitiveness in the market and long-term profitability. TBC's ability to generate loyalty amongst our clients is critical to our strategy to maintain and grow our share of the Georgian banking market, and a significant factor in our ability to continue delivering strong financial results. Going forward, we plan to reinforce the value of customer centrality in our corporate culture, continue to invest in staff competencies, further refine user experience through digital channels and introduce simpler, uniform designs and navigation and new and improved processes for managing customer experience across every channel and segment.

Vision Quantification

In 2013, we were accountable to our stakeholders to deliver best performance against 6 key metrics.

	Metric		Actual 2013	Target 2013	Example Strategic Initiatives
Key Performance Indicators	1. ROE	✓	18.7%	17-19%	• Segment Growth
	2. Cost to Income	✓	52.1%	< 56%	• Sales re-engineering and CRM implementation
	3. NPL and Restructure Loans Coverage	✓	4.8%	6.6%	• IT Process Efficiency Improvements
	4. Customer Satisfaction Index (TRI*M)	✓	+6% from next competitor	+5% from next competitor	• Non-interest Income Program
	5. Employee Satisfaction	✓	0.450	0.317	• Basel Implementation Project
Multichannel Capabilities	6. Active Internet/ Mobile Banking Clients	✓	130,900	57,000-100,000	• Best-in-class multichannel platform

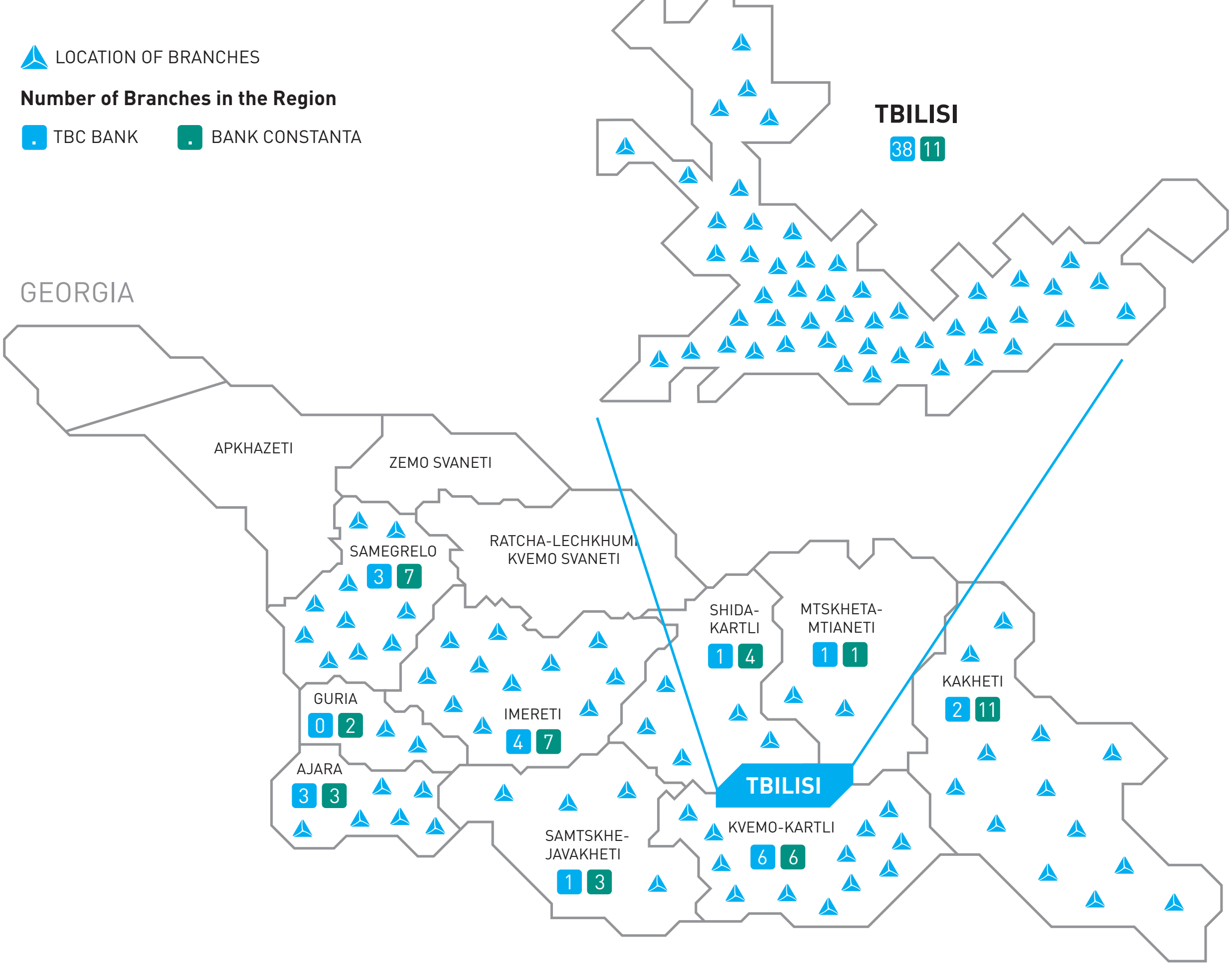
BUSINESS REVIEW

DISTRIBUTION CHANNELS

Multichannel Distribution Platform

Our network, including our Bank Constanta branches, covers all the main regions of Georgia with 114 branches, 59 of which are TBC Bank and 55 Bank Constanta branches. We have a total of 2,471 employees (1,522 for TBC) within our branch network. TBC Bank's branches are distinguished by their customer-friendly design and exceptional quality of customer service. Our branches are highly standardized, with the aim of delivering a superior customer experience to support and enhance our brand. TBC's position as a leader in customer experience is enforced by the TNS Research TRI*M Index results, where we maintained a high customer retention score and at least a 6-point advantage over our next best competitor on the same measure throughout 2013.

TBC Branch Network (2013)



BUSINESS REVIEW

Leading Branch Efficiency

We constantly enhance and improve our branches through projects aimed at increasing efficiency, standardizing customer service and providing a unique banking experience. As a result, we maintain the best branch productivity in the market across the key performance metrics.

Electronic Banking

TBC Bank launched the first Internet bank in November 2001. The new consumer Internet banking service was launched in early 2012 as part of our multichannel project. In 2012, we also launched the first ever iPhone and Android mobile banking applications in Georgia. The subsequent versions for smartphone devices were launched during the same year. The new corporate internet bank and the Blackberry mobile banking application have been available to customers since early 2013, followed by the market's first Internet banking application for iPad launched in the fourth quarter of 2013. In 2013, 81% of TBC's non-cash transactions were conducted through remote channels.

TBC Bank's internet and mobile banking offers a wide range of innovative features that reflect current global trends and are unique for the Georgian market. Services are being integrated into the multichannel platform, thus giving customers the possibility to access their accounts and manage their money easily anytime, from anywhere and with any device with a single log-in.
TBC Bank's multichannel platform is differentiated by several key capabilities:

- Full Synchronization and Core Banking Integration
- Flexible Platform Architecture
- High Straight Through Processing (STP) Rates
- Full Regulatory Compliance
- Market-leading Personal Finance Management (PFM) Tool
- Online Product Sales

During 2013, we have been working towards further improving our leading internet banking and multichannel capabilities, introducing increased functionality, cleaner design and easier navigation throughout the year. As a result, in 2013 our internet banking received 7 awards from *Global Finance* magazine, including 2 global category wins for "Best Consumer Internet Banking Bill Payments and Presentment" and "Best Consumer Integrated Internet Banking Site." It was also named the "Best Consumer Internet Bank in Georgia" for the second consecutive year and the "Best Corporate Internet Bank in Georgia."

Other Channels

By the end of 2013, TBC operated a network of 332 ATMs (286 by TBC Bank and 46 by Bank Constanta) and 2,779 POS terminals (1,600 of which have contactless payment capabilities). We also have a wide network of TBC Pay machines, our cash-in payment kiosks that allow clients to perform various transactions remotely: clients can pay loans, utility bills, car parking fees and parking fines, mobile and internet bills through these terminals. As at 31 December 2013, we had 2,566 TBC Pay terminals, located within TBC's branches, at shopping centers, supermarkets and other locations throughout Georgia. Since October 2013, our clients are also able to complete payments using cards through these terminals.

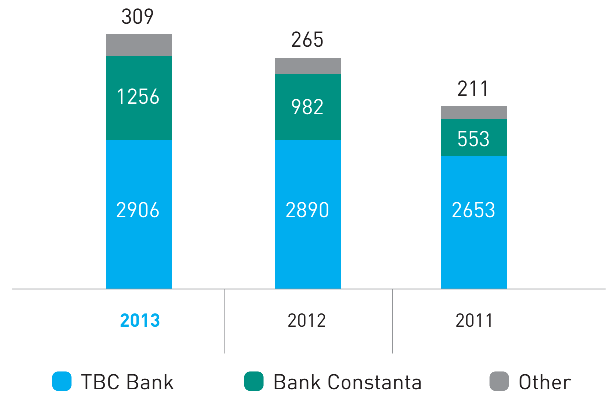
TBC Bank offers its clients a customer call center service through which transactions between customer accounts and interbank transfers up to GEL 5,000 can be conducted, in addition to typical call center client services. More than 100 of TBC Bank's staff are employed at the call center.

PEOPLE

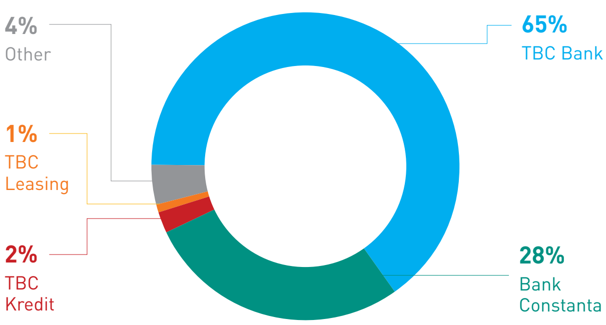
Our best employees are a key competitive strength for TBC. We depend on our employees to deliver against our strategy. In 2013 we achieved significant progress in our commitment to continue building our unique culture, strengthen our team and enhance internal policies.

TBC Group employed 4,471 people as at 31 December 2014, 334 and 1,504 more than the same period in 2012. The majority of the Group's staff was employed at TBC Bank with 65% of the total workforce, while Bank Constanta employed the second largest portion, 28% of all Group employees. TBC Kredit, TBC Leasing and other TBC Bank subsidiaries employed the remaining 7% of our employees. During 2013, 98% of TBC's employees worked full time. As at the same date, 4,184 of its employees (or 97.9% of the total) were based in Georgia.

TBC GROUP EMPLOYEES



TBC GROUP PERSONNEL BY COMPANY



BUSINESS REVIEW

Turnover Rates by Department

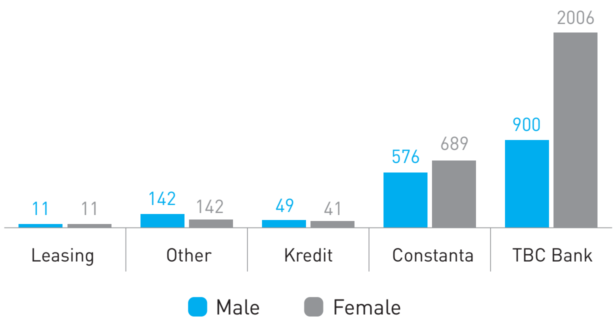
We are proud to have one of the lowest employee turnover rates in Georgia with approximately 0.67% per month in 2013.

	2013	2012	2011
Head Office + Branches	**7%** (153)	**6%** (134)	**9%** (181)
Finance	**5%** (2)	**7%** (3)	**12%** (5)
Corporate	**13%** (6)	**15%** (7)	**14%** (7)
Retail & SME	**8%** (8)	**6%** (6)	**6%** (5)
Operations	**4%** (12)	**5%** (11)	**4%** (8)
Risks	**9%** (7)	**6%** (6)	**6%** (5)
IT	**12%** (14)	**13%** (16)	**16%** (19)
Branches	**7%** (89)	**6%** (79)	**6%** (72)

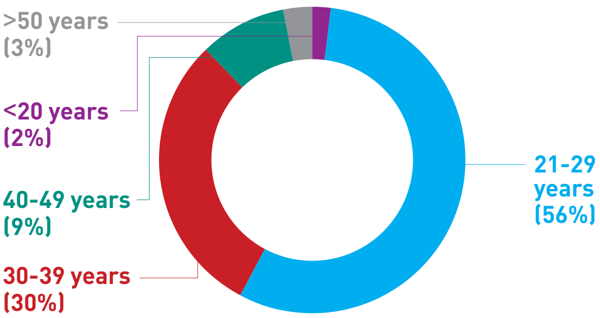
Equal Opportunity Employment and Gender Balance

TBC Bank is an equal opportunity employer. We do not discriminate based on gender, age, ethnicity, religion, or other factors. This policy is an important component of the Code of Conduct that states our commitment to a strict policy of equal opportunity employment.

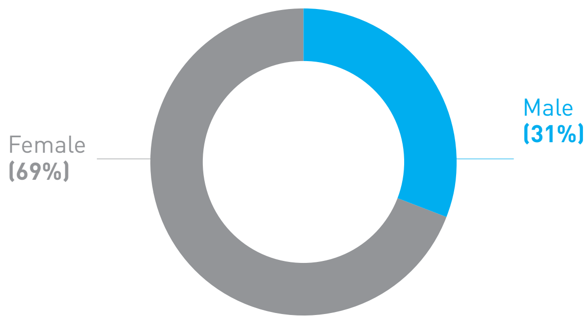
GENDER BREAKDOWN OF TBC GROUP EMPLOYEES



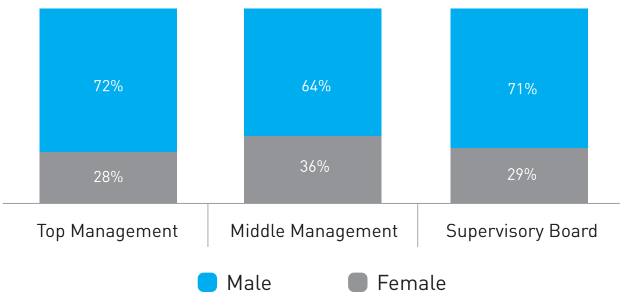
TBC BANK EMPLOYEE AGE BREAKDOWN



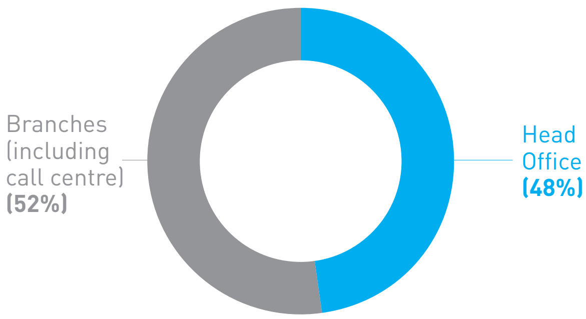
TBC BANK EMPLOYEE BREAKDOWN BY GENDER



FEMALE LEADERSHIP IN TBC GROUP



TBC BANK EMPLOYEE COMPOSITION BY LOCATION



Performance Assessment and Remuneration

The Bank strategy is the main driver for the senior management to set their goals and targets. These goals and targets are clearly defined at each level of the Bank, and then used to determine the performance assessment and incentives of the Bank's employees.

The motivation system in the branches and other front offices has been developed with an external consultant. For the relevant staff in the head office, the Bank implemented the Management by Objectives (MBO) system to assess staff performance. The system requires all employees and their immediate supervisors to set clear goals and objectives. At the end of each period, performance assessment is made according to the pre-agreed and transparent criteria.

The ranking aspect of the MBO allows for a more impartial comparison for performance across the Bank's staff and reveals top performers as well as underperformers at the of each year.

Employee Communication and Survey

TBC Bank regularly communicates to its employees, providing information on the Bank and its activities and receiving regular feedback from all staff. Information is communicated via executive presentations, corporate news magazines, intranet content, and various employee appreciation and motivation events organized by the Human Resources department.

Code of Ethics

The Bank's new Code of Ethics was approved in May 2013. This document regulates important areas of corporate culture and corporate values. Last year, the Bank made important progress in terms of aligning the Bank's Code of Ethics with international best practices. The Code emphasizes enhanced team work and team spirit, respect for colleagues and a client focused service model. The Code was reviewed and approved by the Risks, Ethics and Compliance Committee at the Supervisory Board level and updates to the Code of Ethics were reported to the Supervisory Board.

Code of Conduct

The Code of Conduct regulates the internal policy for the Bank's employees, including such important areas as equal opportunity employment, discipline, conflict of interests, confidentiality, relations with staff and clients, and working conditions. The Code of Conduct was revised and updated in August 2013 to fully reflect changes introduced by the new Labor Code in the country, as well as international best practices. As a result, some of the employee benefits were revised up to the current levels as reported in this document. The Code of Conduct is developed in cooperation with relevant Supervisory Board committees and is reported to the Board.

BUSINESS REVIEW

In order to accurately assess the attitude and experience of our employees, the HR department conducts regular Employee Satisfaction and Engagement Surveys each year, which among other things monitors staff engagement and loyalty. The results are discussed and appropriate action plans are set by the management each year.

Employee Benefits Policy

TBC Bank employees received benefits in the form of paid annual leave and sick leave, bonuses, and non-monetary benefits in addition to salaries and wages.

TBC's ability to continue to retain, motivate and attract qualified and experienced banking and management personnel is vital to TBC's business. To this end, TBC Bank offers the market-leading employee benefits package that reflects the high value placed on our workforce.

TBC provides its employees with competitive pension and health insurance benefits. TBC's contributions to these benefit programs vary according to the employees' position and salary level. TBC does not have any pension liabilities towards its employees.

Schedule of Employee Benefits

	Trigger	Type of benefit
Health insurance	After 1 year	Monthly co-payment
Pension funds	After 2 years	Monthly co-payment
SOCIAL BENEFITS		
Marriage	After 6 months	By case
Child birth	After 6 months	By case
Death of a family member	After 6 months	By case
Paid leave & day off	After 11 months	By case
Non tangible motivation for middle management	0 months	Annual Ind. fund
International & local MBA, trainings, seminars	After 1 year	Competitive

Employee Training and Leadership Development

TBC's employment strategy is to attract and retain skilled and well-trained employees at all levels. Its human resource management system is supported by a tailored IT system to manage personnel through career planning, training, and performance evaluations. TBC Bank provides mandatory training programs on all key skills, including customer services, negotiation skills, conflict resolution, time management, business communication, team building and banking products.

In addition, TBC Bank has developed a special talent management program that entered its third year in 2013. Since 2010, the Bank has been identifying certain employees with high leadership potential and providing them with special career development tools and opportunities through a budget especially allocated for this program.

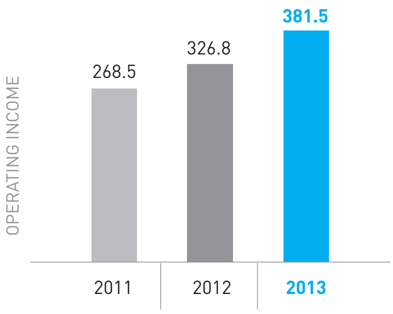
FINANCIAL REVIEW

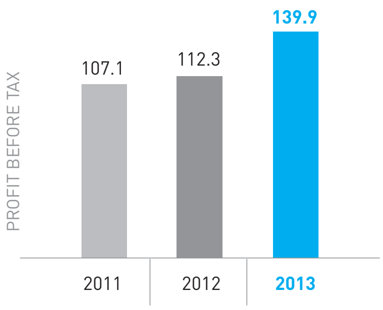
FINANCIAL REVIEW

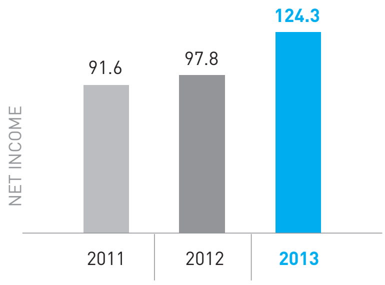
KEY PERFORMANCE INDICATORS

INCOME STATEMENT HIGHLIGHTS | In millions GEL

Operating Income	Profit Before Tax	Net Income
381.5	139.9	124.3

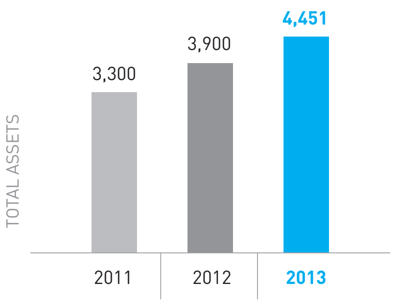


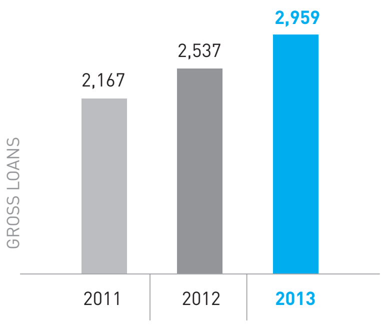


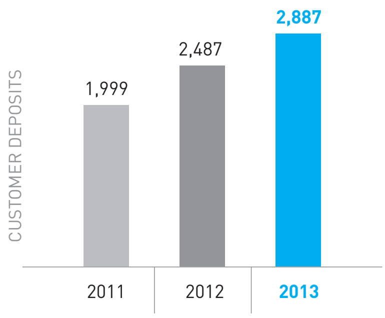


BALANCE SHEET HIGHLIGHTS | In millions GEL

Total Assets	Gross Loans	Customer Deposits
4,451	2,959	2,887







KEY RATIOS

	ROAE	Cost to Income	NPL
	18.7%	52.1%	1.1%
2013	18.7%	52.1%	1.1%
2012	18.6%	56.8%	1.0%
2011	21.8%	54.2%	0.6%

INCOME STATEMENT DISCUSSION

NET INTEREST INCOME (in thousands GEL)	2013	2012	Change in %
Loans and advances to customers	433,968	414,249	4.8%
Investment securities available for sale	30,442	27,211	11.9%
Due from other banks	3,030	6,960	-56.5%
Investment securities held to maturity	-	2,373	NMF
Investments in leases	7,356	5,734	28.3%
Other	0	18	NMF
Interest income	**474,796**	**456,545**	**4.0%**
Customer accounts	139,913	156,634	-10.7%
Due to credit institutions	38,645	47,946	-19.4%
Subordinated debt	13,182	13,226	-0.3%
Other	406	89	356.2%
Interest expense	**192,146**	**217,895**	**-11.8%**
Net interest income	**282,650**	**238,650**	**18.4%**
Net interest margin	**8.4%**	**7.7%**	**0.7pp**

2013 to 2012 Comparison

In **2013**, net interest income was **GEL 282.7 million**, up **GEL 44.0 million**, or **18.4%**, compared to **GEL 238.7 million** in **2012**. The increase was a result of **4.0%** growth in interest income to **GEL 474.8 million** from **GEL 456.5 million** and **11.8%** decrease in interest expense to **GEL 192.1 million** from **GEL 217.9 million**.

The growth in interest income was primarily due to the increase in interest income from loans by GEL 19.7 million, or 4.8%, to GEL 434.0 million, mainly as a result of a 10.3% YoY increase in the average gross loan portfolio, which more than offset the decrease in loan yields. Aligned with the declining interest rates in the country, average loan yields went down to 16.6% in 2013, compared to 17.5% in 2012.

In addition, average yields on securities decreased to 6.4%, compared to 7.6% in 2012, and amounts due from credit institutions to 1.2%, compared to 2.1% in 2012. These changes were reflected in the decline in interest rate earned on average interest earning assets to 14.1% in 2013, down 0.6 percentage points from 14.7% in the previous year.

The 11.8% YoY decrease in interest expense reflected the reduced interest expense on most of the interest bearing liabilities, which was principally due to the reduced rates on deposits as well as a slight effect of the increase in the share of current accounts in total deposit portfolio. The decrease on the rates of deposits was broadly aligned with the declining interest rates trend in the country. As a result, the average deposit rates decreased to 5.5%, compared to 7.0% in 2012, which along with the reduced average rates on due to credit institutions that stood at 6.8% in 2013, compared to 7.0% in 2012, drove our cost of funding ratio to 5.9%, compared to 7.1% in 2012.

As a result, net interest margin (NIM) increased to 8.4%, up 0.7 percentage points, compared to 7.7% in 2012.

FINANCIAL REVIEW

FEE AND COMMISSION INCOME (in thousands GEL)	2013	2012	Change in %
Card operations	31,834	26,844	18.6%
Guarantees issued	6,271	9,530	-34.2%
Settlement transactions	11,856	10,006	18.5%
Cash transactions	5,040	4,092	23.2%
Foreign exchange operations	1,550	1,632	-5.0%
Issuance of letters of credit	6,769	2,762	145.1%
Other	3,177	3,274	-3.0%
Fee and commission income	**66,497**	**58,140**	**14.4%**
Card operations	13,143	9,657	36.1%
Guarantees received	4,048	3,625	11.7%
Settlement transactions	2,157	1,501	43.7%
Cash transactions	1,544	1,084	42.4%
Foreign exchange operations	70	62	12.9%
Other	3,339	2,901	15.1%
Fee and commission expense	**24,301**	**18,830**	**29.1%**
Net Fee and Commission Income	**42,196**	**39,310**	**7.3%**

2013 to 2012 Comparison

In **2013**, the net fee and commission income was **GEL 42.2 million**, up **GEL 2.9 million**, or **7.3%**, compared to the previous year.

This was a result of an increase in net fee and commission income from issuance of letters of credit of GEL 4.0 million, card operations of GEL 1.5 million, settlement transactions of GEL 1.2 million and cash transactions of GEL 0.5 million. This more than offset the GEL 3.7 million decrease in net fee and commission income from guarantees aligned with a temporary decrease in corporate customers activities and related decrease on demand for such instruments.

OTHER OPERATING NON-INTEREST INCOME (in thousands GEL)	2013	2012	Change in %
Gains less losses from trading in foreign currencies and foreign exchange translations	31,993	32,857	-2.6%
Gains less losses / (losses less gains) from derivative financial instruments	613	(3,804)	NMF
Other operating income	24,000	19,772	21.4%
Other operating non-interest income	**56,606**	**48,825**	**15.9%**

2013 to 2012 Comparison

In **2013**, other operating non-interest income increased by **GEL 7.8 million**, or **15.9%**, to **GEL 56.6 million**, compared to **GEL 48.8 million** in **2012**.

The increase in total operating non-interest income was primarily due to the gain from the fair valuation of interest rate swap in the amount of GEL 0.6 million in 2013, reported under gains from derivative financial instruments, aimed at hedging the negative effect of the possible LIBOR increase on the floating interest rate to the banking book, compared to the loss in the amount of GEL 3.8 million in the same period in the previous year. The increase in total operating non-interest income was also attributable to the increase in other operating income by GEL 4.2 million, or 21.4%, to GEL 24.0 million for the year ended 31 December 2013 from GEL 19.8 million for the year ended 31 December 2012, which was driven by higher gains in 2013 from the sale of more investment property in 2013 than in 2012, as well as increased revenues from pay-box terminal services as a result of the increased operations of our cash-in terminals.

These increases in total operating non-interest income were slightly offset by a decrease in the recorded gain from trading in foreign currencies and on foreign exchange translations of GEL 32.0 million for the year ended 31 December 2013, compared to a gain of GEL 32.9 million for the year ended 31 December 2012. The decrease in 2013 was primarily as a result of decreased corporate activities and the respective decrease in the currency operations of the corporate customers in 1H 2013 as compared to 2012.

PROVISION FOR IMPAIRMENT (in thousands GEL)	**2013**	**2012**	**Change in %**
Provision for loan impairment	32,971	23,154	42.4%
Provision for / recovery of provision for impairment of investments in finance lease	98	42	133.3%
Provision for performance guarantees and credit related commitments	6,459	1,606	302.2%
Provision for impairment of other financial assets	2,236	4,132	-45.9%
Impairment / recovery of impairment of investment securities available for sale	1,142	10	NMF
Total provision for impairment	**42,906**	**28,944**	**48.2%**
Operating income after provisions for impairment	**338,546**	**297,841**	**13.7%**
Cost of Risk	**1.2%**	**1.0%**	**0.3pp**

FINANCIAL REVIEW

2013 to 2012 Comparison

For the year ended **31 December 2013**, TBC's total provision charges for impairment increased by **GEL 14.0 million**, or **48.2%**, to **GEL 42.9 million** from **GEL 28.9 million** for the year ended **31 December 2012**.

The increase in provision charges was primarily driven by increases in provisions for loan impairment and provisions for performance guarantees and credit related commitments.

Provision charges for loan impairment increased by GEL 9.8 million, or 42.4%, to GEL 33.0 million for the year ended 31 December 2013 from GEL 23.2 million, primarily due to the loan book growth during this period and provision charges for a limited number of corporate borrowers, as well as a GEL 6.2 million provision on a fraudulently issued guarantee in 2013.

The increase in provision charge for performance guarantees and credit related commitments, was primarily due to the increased provision charges on performance guarantees and credit-related commitments resulting primarily from the increased balances of their respective portfolios by GEL 28.2 million, or 7.8%, for the year ended 31 December 2013 as well as an increased provisioning charge on a corporate guarantee.

OPERATING EXPENSES (in thousands GEL)	**2013**	**2012**	**Change in %**
Staff costs	108,613	92,289	17.7%
Depreciation and amortization	19,993	22,103	-9.5%
Provision for liabilities and charges	1,315	1,700	-22.6%
Administrative and other operating expenses	68,692	69,440	-1.1%
Operating expenses	**198,613**	**185,532**	**7.1%**
Profit before tax	**139,933**	**112,309**	**24.6%**
Income tax expense	15,663	14,498	8.0%
Profit for the period	**124,270**	**97,811**	**27.1%**

Cost to income ratio	**52.1%**	**56.8%**	**-4.7pp**
ROAE	**18.7%**	**18.6%**	**0.1pp**
ROAA	**3.1%**	**2.7%**	**0.4pp**

2013 to 2012 Comparison

Total operating expenses increased by **GEL 13.1 million**, or **7.1%**, to **GEL 198.6 million** for the year ended **31 December 2013** from **GEL 185.5 million** for the year ended **31 December 2012**.

The increase was principally due to an increase in staff costs by GEL 16.3 million, or 17.7%, to GEL 108.6 million for the year ended 31 December 2013, from GEL 92.3 million in 2012. This mainly resulted from an increase in staff salaries and bonuses reflecting TBC's growth and performance, as well as a 28% increase in the number of employees of Bank Constanta in 2013 compared to 2012, in connection with the growth of Bank Constanta's business.

The increase in staff costs was partially offset by a decrease in depreciation and amortization expenses by GEL 2.1 million, or 9.5%, to GEL 20.0 million for the year ended 31 December 2013, from GEL 22.1 million for the year ended 31 December 2012, reflecting a one-time GEL 3.9 million write-off relating to computer servers in 2012. Administrative and other operating expenses also decreased by GEL 0.7 million, or 1.1%, to GEL 68.7 million for the year ended 31 December 2013, from GEL 69.4 million for the year ended 31 December 2012. This decrease was mainly driven by decreases in professional services and advertising and marketing services. Professional services decreased by GEL 3.8 million, or 37.9%, to GEL 6.2 million for the year ended 31 December 2013 primarily due to the significant investments in various initiatives undertaken by TBC in 2012 and 2013 (the "Basel II/III Implementation Project" and the "Lean Banking" initiative), for which similar expenses were not recorded in 2013. Similarly, advertising and marketing services fell by GEL 2.0 million, or 13.0%, for the year ended 31 December 2013 as compared to 2012 reflecting the relatively high level of expenses incurred in connection with the marketing and advertising activities associated with TBC's 20th anniversary in 2012. These decreases were partially offset by the increase in write-down of current assets to fair value less costs to sell, which was due to the revaluation of repossessed collateral.

TAXATION (in thousands GEL)	**2013**	**2012**	**Change in %**
Current tax charge	8,247	4,077	102.3%
Deferred tax charge	7,416	10,421	-28.8%
Income tax expense for the period	**15,663**	**14,498**	**8.0%**

TBC reported income tax expense of GEL 15.7 million for the year ended 31 December 2013, compared to GEL 14.5 million for the year ended 31 December 2012.

TBC's income tax expense increased by GEL 1.2 million, or 8.0%, to GEL 15.7 million for the year ended 31 December 2013 from GEL 14.5 million for the year ended 31 December 2012 primarily as a result of the increase in taxable income, resulting in an effective tax rate of 11.2% in 2013 (compared to 12.9% in 2012). As a result of certain differences between taxable income as defined under applicable Georgian legislation and income recorded according to IFRS, TBC's effective tax rate under IFRS was lower than the 15.0% Georgian corporate tax rate generally applicable to TBC.

Profit

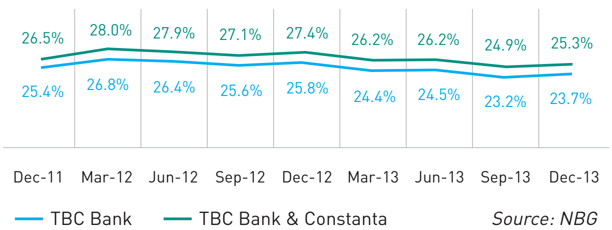
For the foregoing reasons, TBC's profit after income tax expense increased by GEL 26.5 million, or 27.1%, to GEL 124.3 million for the year ended 31 December 2013 from GEL 97.8 million for the year ended 31 December 2012.

FINANCIAL REVIEW

MARKET POSITION[a]

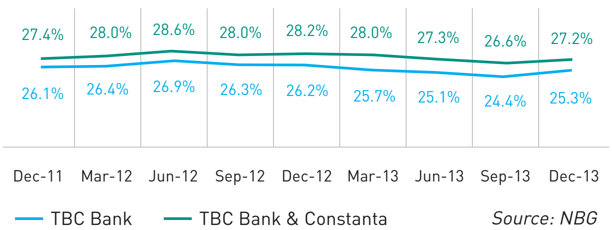
TBC's market share in total assets increased by 0.5 percentage points QoQ and decreased 2.1 percentage points YoY attaining 23.7% as at 31 December 2013.

Asset Market Shares



TBC's market share, including Bank Constanta, reached 25.3% as at 31 December 2013, up 0.3 percentage points QoQ and down 2.1 percentage points YoY. The decrease in market share is caused by the decrease in market share in loans as described below and optimization of liquidity whereby TBC continued to release excess costly deposits.

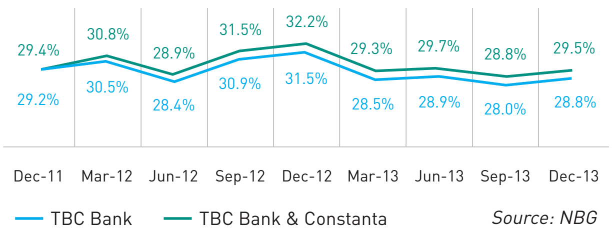
Loan Market Shares



TBC's market share in total loans was 25.3%, up 0.9 percentage points QoQ and down 0.9 percentage points YoY as at 31 December 2013.

TBC's market share, including Bank Constanta was 27.2% as at the same period, up 0.6 percentage points QoQ and down 1.0 percentage points YoY. The 1.0 percentage points decrease in market share was driven by the decrease in corporate loans in H1 2013 along with decreased business activities among corporate customers during the so called transition period. This decrease was partially offset by the increase in corporate loan book in Q4 2013 by GEL 152.2 million, or 15.1%.

Deposit Market Shares



The market share in total customer deposits increased by 0.8 percentage points QoQ and decreased by 2.8 percentage points YoY, reaching 28.8% as at 31 December 2013.

The combined market shares of TBC Bank and Bank Constanta increased by 0.7 percentage points QoQ and decreased by 2.8 percentage points YoY, reaching 29.5% as at 31 December 2013. The decrease in the market share of total deposits on a YoY basis was a result of the Management's decision to optimize TBC's cost of funding, by, among other initiatives, continuing the release of large corporate deposits, which are more expensive and less sticky than retail deposits.

[a] Market shares are based on NBG.

BALANCE SHEET DISCUSSION (in thousands GEL)	**31-Dec-13**	**31-Dec-12**	**Change YoY**
Cash and due from banks	687,505	744,190	-7.6%
Loans and advances to customers	2,801,712	2,370,200	18.2%
Financial securities	500,651	407,733	22.8%
Fixed and intangible assets & investment property	306,542	245,678	24.8%
Other assets	154,665	131,893	17.3%
Total assets	**4,451,075**	**3,899,694**	**14.1%**
Due to other banks	47,252	76,204	-38.0%
Customer accounts	2,886,883	2,486,944	16.1%
Debt Securities in issue	4,474	-	NMF
Borrowed funds & Subordinated Debt	686,828	665,999	3.1%
Other liabilities	96,349	66,523	44.8%
Total Liabilities	**3,721,786**	**3,295,670**	**12.9%**
Total equity	**729,289**	**604,024**	**20.7%**

Assets

As at **31 December 2013**, total assets were **GEL 4,451.1 million**, up **GEL 551.4 million**, or **14.1% YoY**.

The increase was primarily due to the increase in net loans and advances to customers by GEL 431.5 million, or 18.2% YoY. Simultaneously, liquid assets, comprising cash due from banks, mandatory cash balances with National Bank of Georgia and financial securities increased in absolute numbers but its share in total assets decreased mainly due to the increased lending and resulted in liquid assets to liabilities ratio of 31.8% as at 31 December 2013, compared to 34.8% as at 31 December 2012.

As at **31 December 2013**, the gross loan portfolio reached **GEL 2,958.6 million**, up **16.6% YoY**.

As at 31 December 2013, the gross loans denominated in foreign currency accounted for 69.3% of total gross loans, compared to 73.4% as at 31 December 2012, which reflects the decreasing trend in foreign currency denominated loans. The NPL ratio, defined as loans overdue more than 90 days over gross loan portfolio stood at 1.1%, and stayed broadly the same on a YoY basis.

FINANCIAL REVIEW

Liabilities

At the end of 2013, total liabilities were GEL 3,721.8 million, up GEL 426.1 million, or 12.9% YoY. The increase was primarily due to the increase in customer deposits by GEL 399.9 million, or 16.1% YoY and the increase in subordinated debt was mainly due to additional subordinated loans from FMO jointly with Swedfund and Cordiant Capital in September 2013 and DEG in June 2013. As at 31 December 2013, total customer deposits accounted for 77.6% of total liabilities, compared to 75.5% as at 31 December 2012. As at the same date, other borrowed funds and subordinated debt accounted for 18.5% of total liabilities, compared to 20.2% as at 31 December 2012.

Liquidity

TBC's liquidity ratio defined by the National Bank of Georgia reached 34.0%, compared to 36.6% as at 31 December 2012, due to an increase in business activities and further reduction in deposits.

Total Equity

Total equity was **GEL 729.3 million**, up **GEL 125.3 million**, or **20.7% YoY**.

These increases were primarily due to the increased net income during the period and new shares issued and sold under the capital raising transactions which started in 2012 and continued until the first half of 2013, as well as management bonuses.

Regulatory Capital

As of **31 December 2013**, TBC's NBG tier 1 and total capital ratios were **10.6%** and **14.6%** respectively, compared to **11.2%** and **13.7%** as at **31 December 2012**.

The minimum capital requirements set by NBG for tier 1 and total capital ratios are 8% and 12% respectively.

TBC's BIS tier 1 capital ratio was **21.6%**, compared to **20.1%** as at **31 December 2012**.

The tier 1 capital ratio increase was positively impacted by the increase in equity and reached GEL 675.7 million as at 31 December 2013, up GEL 116.4 million YoY. Risk weighted assets were GEL 3,135.5 million as at 31 December 2013, up 12.5% YoY.

ANALYSIS OF RESULTS BY SEGMENTS AND SUBSIDIARIES

- Retail – all individual customers of the Group.
- Corporate – business customers which have an 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 which have been granted loans by and/or have deposits with Bank Constanta, the amount of which in neither case exceeds USD 150,000.

FINANCIAL RESULTS OF TBC'S SEGMENTS (in thousands GEL)

For the year ended 31 December 2013

	Retail	Corporate	SME	Micro	Corporate center and other operations	Total
31 December 2013						
- Interest income	207,028	131,385	44,370	51,185	40,828	**474,796**
- interest expense	(96,144)	(35,721)	(7,622)	(426)	(52,233)	**(192,146)**
- Inter-segment interest income/(expense)	24,157	(50,675)	(3,679)	(15,045)	45,242	**-**
- Net interest income	**135,041**	**44,989**	**33,069**	**35,714**	**33,837**	**282,650**
- Fee and commission income	40,823	15,881	7,349	2,444	-	**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**

FINANCIAL REVIEW

Retail Banking

As at 31 December 2013, TBC Bank was the largest bank in the country in terms of retail deposits and the second largest bank in terms of retail loans, accounting for 33.1% and 27.7% of the market shares respectively.

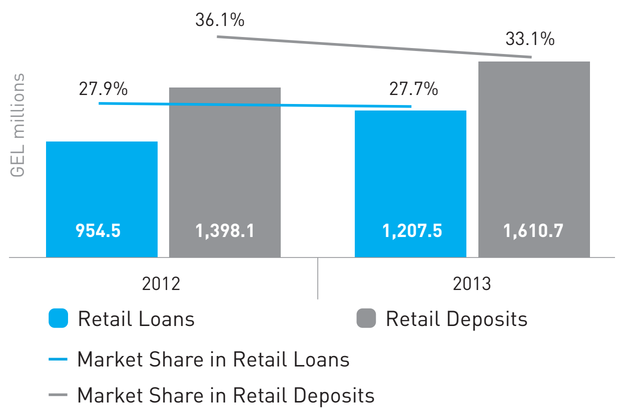
The retail segment accounted for 40.8% and 55.8% of TBC's loan and deposit portfolios respectively, representing the largest segment of TBC's portfolios. The retail segment served approximately 900k customers, offering its clients a wide range of products, including lending products (mortgage, consumer loan, auto loan, POS loan, student loan, credit card, gold pawn), accounts and deposit products (current account, savings account, term deposit, gold deposit, children savings account, certificates of deposit), debit cards (both Visa and MasterCard), and other products (cash operations, currency exchange, wire transfers, safe and deposit boxes).

Our highly productive and efficient distribution network enables us to reach out to retail clients with 114 branches (out of which 55 belong to Bank Constanta), 332 ATMs (out of which 46 belong to Bank Constanta) and 2,779 POS terminals (1,600 of which have contactless payment capabilities), and 2,566 cash-in terminals (TBC Pay) across the country. During 2013, the number and volume of transactions performed through ATMs increased by 14.1% and 16.3%, POS terminals by 77.3% and 58.9% and Cash-in terminals (TBC Pay) by 35.6% and 52.4%, respectively.

The retail segment leverages its strength on our best in class multichannel platform with global award winning Internet banking[a] along with mobile, iPod, iPad and other types of e-banking applications. As at 31 December 2013, our customer base of internet and mobile banking reached approximately 130k and 33k active users respectively. During 2013, the number of transactions performed by internet and mobile banking increased by 47% (from 153k to 226k) and its share in total transactions[b] increased from 25% to 31%.

We have a market leading position in the credit card market in Georgia based on the outstanding number of credit cards (circa 232k) as at 31 December 2013. As at the same date, the number of issued debit cards reached approximately 380k. Furthermore, in 2013, TBC Bank introduced contactless credit and debit cards, allowing cardholding clients to make payments up to GEL 45 in a much faster way than with an ordinary card.

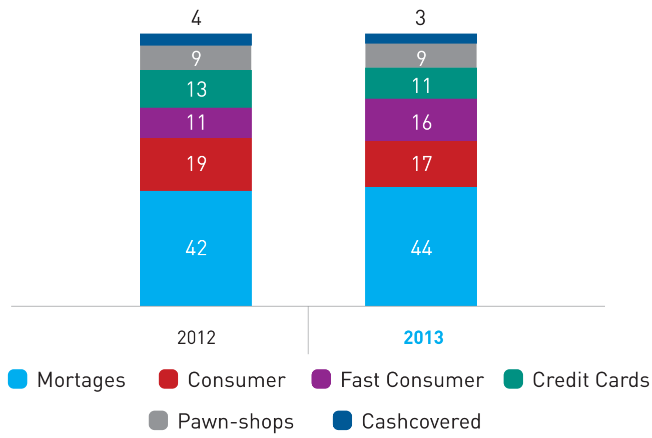
RETAIL SEGMENT DYNAMICS



Retail Loans and Advances to Customers

As at 31 December 2013, retail loans increased to GEL 1,207.5 million, up GEL 253.1 million, or 26.5% YoY. As at the same period, TBC's market share in individual loans was 27.7%.

RETAIL LOAN PORTFOLIO BY PRODUCTS (%)*



* Source: TBC Standalone IFRS figures.

[a] Global Finance Magazine named TBC Bank's internet banking in global nominations: "The Best Bill Payment & Presentment in the World" and "The Best Integrated Internet Bank Site in the World".

[b] Total transactions include transactions made in branches, through call center, internet banking, mobile banking, cash-in terminals, as well as direct debits and standing orders.

As at year ended 31 December 2013, foreign currency loans represented 57.6% of total retail loan portfolio.

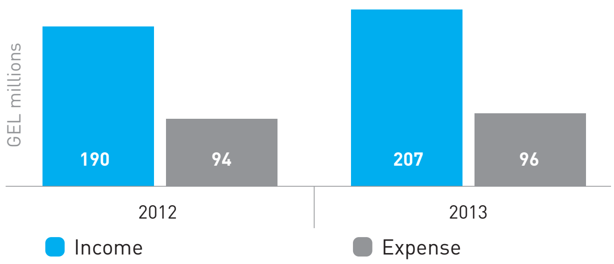
Retail Customer Deposits

As at 31 December 2013, retail deposits increased to GEL 1,610.7 million, up 15.2% YoY. TBC's market share in individual deposits was 33.1% as at the same date.

Term deposits represented 61.4% of the total retail deposit portfolio as at 31 December 2013. As for the retail deposits dollarization, foreign currency deposits represented 80.4% of the total retail deposit portfolio.

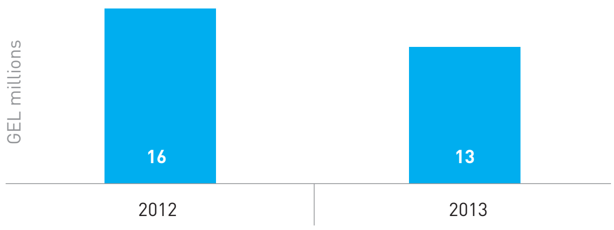
Retail Segment Profitability

INTEREST INCOME AND EXPENSE*

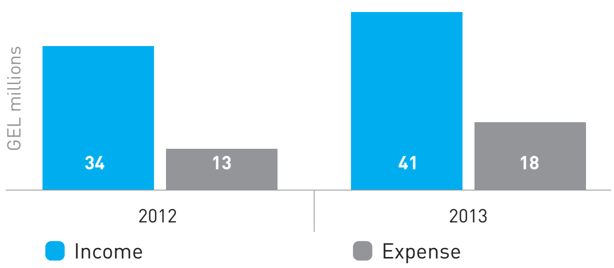


* Figures in the chart exclude transfer pricing.

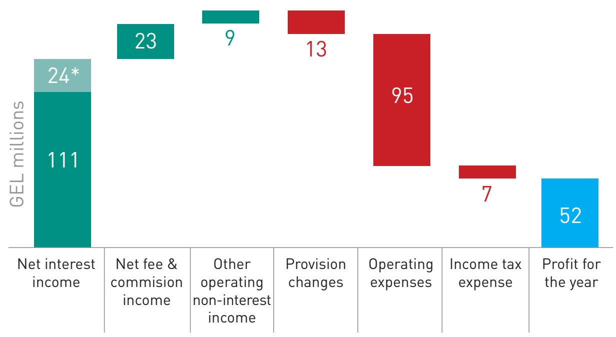
LOAN IMPAIRMENT EXPENSE



FEE & COMMISION INCOME AND EXPENSE



RETAIL SEGMENT NET INCOME



* Figure relating to transfer pricing; TBC has been applying internal transfer pricing between its business segments and Corporate Center since late 2012.

In 2013, retail loan yields and deposit rates stood at 19.6% and 6.4% respectively, which along with the low cost of risk of 1.3% led to the high profitability of the retail segment, and translated into net income of GEL 52.4 million, or 42.1% of the Group's total net income.

Corporate Banking

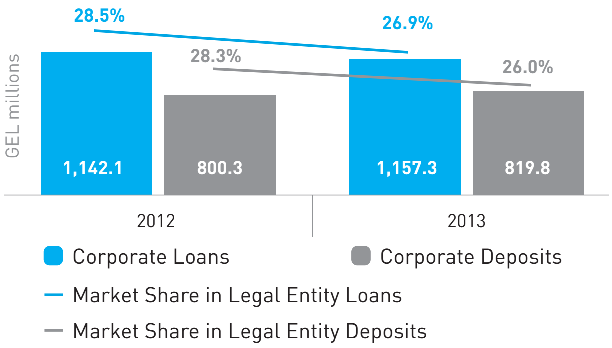
As at 31 December 2013, TBC was the second largest bank in terms of corporate loans and corporate deposits in the Georgian banking sector. Corporate loans and deposits market share[a] stood at 26.9% and 26.0% as at 31 December 2013.

The corporate segment accounted for 39.1% and 28.4% of TBC's loan and deposit portfolios respectively, representing the second largest segment of TBC's portfolios. The corporate segment served over 6,000 accounts and 1,300 customers, offering a wide range of products, including lending products (short-term working capital loans, credit line, overdraft, corporate cards, long term balance sheet finance, project finance, trade finance), treasury products (currency exchange operations, currency risk management, FX derivatives, fixed income products, mutual fund products), deposit & other products (term deposits, current/savings accounts, cash management, cash collections, Internet Banking) and documentary products (letters of credit, local and international guarantees).

[a] As per NBG, corporate segments market share comprises all legal entity loans and deposits, including corporate and SME.

FINANCIAL REVIEW

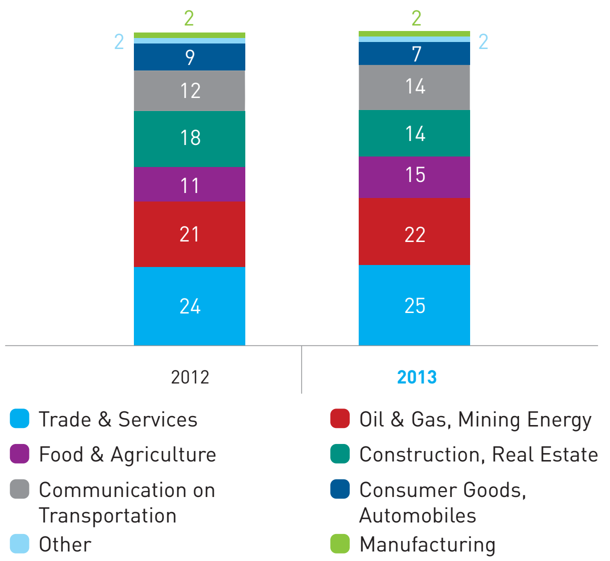
CORPORATE SEGMENT DYNAMICS



Corporate Loans and Advances to Customers

As at 31 December 2013, corporate loans amounted to GEL 1,157.3 million, up 1.3% YoY. As at 31 December 2013, the market share in legal entity loans reached 26.9%.

CORPORATE LOAN PORTFOLIO BY PRODUCTS (%)*



* Source: TBC Standalone IFRS figures.

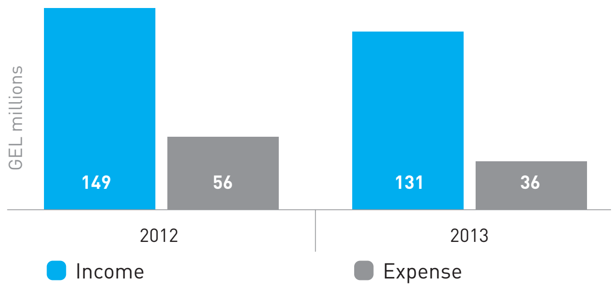
As at 31 December 2013, foreign currency loans represented 79.7% of the total corporate loan portfolio.

Corporate Customer Deposits

As at 31 December 2013, corporate deposits were GEL 819.8 million, up 2.4% YoY. As at the same date, the market share in legal entity deposits reached 26.0%. In corporate deposits, current and saving accounts represented 81.6% as at year ended 31 December 2013, compared to 57.3% in the previous year, mainly due to the transfer of one customer's term deposit into a current account (in the amount of GEL 59.9 million) as well as additional current deposits placed with TBC Bank in the second half of 2013. As at 31 December 2013, foreign currency corporate deposits represented 64.5% of total corporate deposit portfolio.

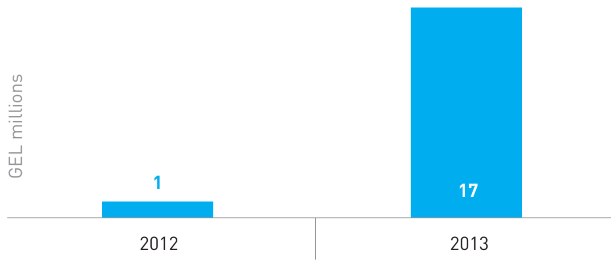
Corporate Segment Profitability

INTEREST INCOME AND EXPENSE*

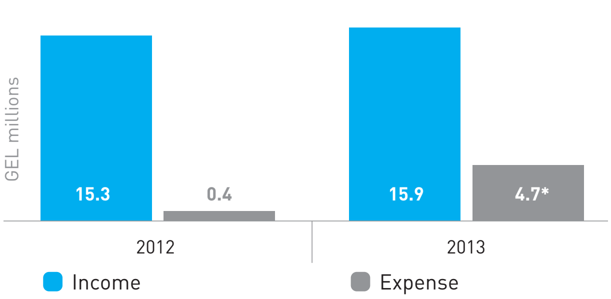


* Figures in the chart exclude transfer pricing.

LOAN IMAIRMENT EXPENSE

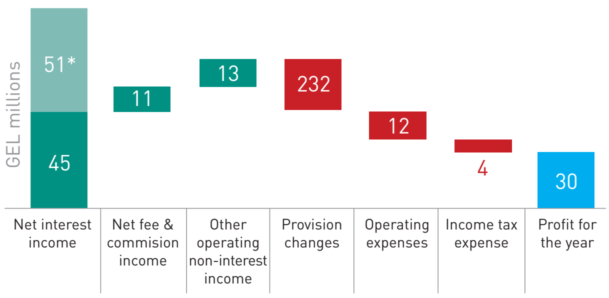


FEE & COMMISION INCOME AND EXPENSE



* The significant increase in F&C expense during 2013 was due to the reallocation of costs that were initially included under treasury.

CORPORATE SEGMENT NET INCOME



* Figure relating to transfer pricing.

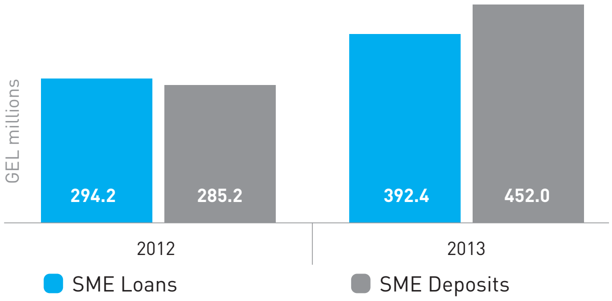
In 2013, corporate loan yields and deposit rates stood at 12.1% and 4.8% respectively. In the same period, cost of risk was 1.6%. In terms of profitability, corporate segment net profit reached GEL 29.6 million, or 23.8% of the Group's total net income.

SME Banking

As at 31 December 2013, the SME segment accounted for 13.3% and 15.7% of TBC's total loans and deposits respectively. The segment offers various types of lending products (loans, credit lines, overdrafts, letters of credit, international bank guarantees, local bank guarantees), deposit products and payment solutions (current accounts, savings accounts, term deposits, wire transfers, business cards, payroll services, merchant solutions/POS terminals) and operational products (internet banking, SMS services, money market, derivatives, cash collection, escrow accounts, direct debit).

As at 31 December 2013, TBC served around 47 thousand customers, through the SME business line and had over 5,000 SME outstanding loans.

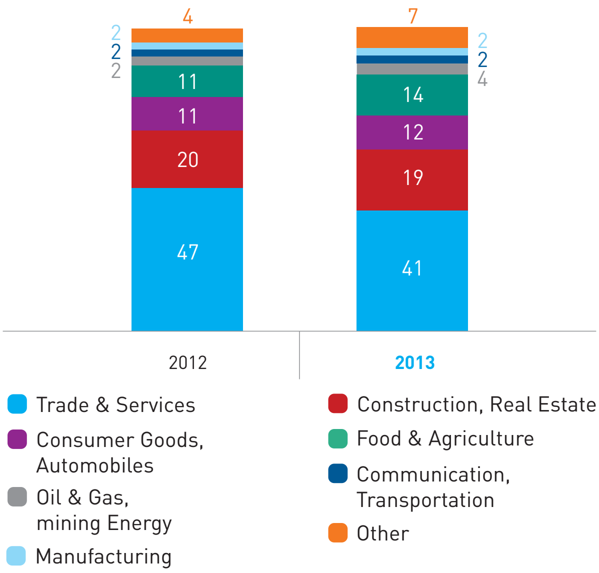
SME SEGMENT DYNAMICS



SME Loans and Advances to Customers

As at 31 December 2013, SME loans increased to GEL 392.4 million, up 33.4% YoY. Despite the absence of SME market information[a], the Management believes that TBC is one of the leading banks in the market, demonstrated by its large and continuously-growing number of loyal customers.

SME PORTFOLIO BY PRODUCTS (%)*



* Source: TBC Standalone IFRS figures.

As at YE 2013, foreign currency loans represented 84.1% of total SME portfolio.

[a] Due to the fact that NBG does not produce market data comparisons for the SME segment, it is impossible to calculate SME market shares.

FINANCIAL REVIEW

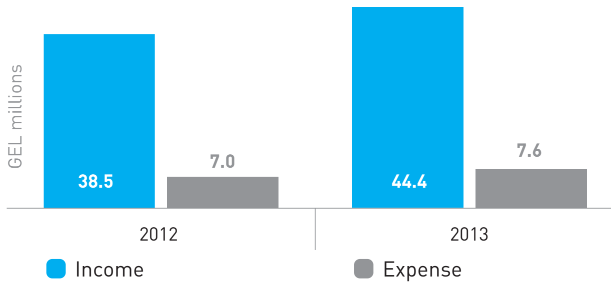
SME Customer Deposits

As at 31 December 2013, SME deposits were GEL 452.0 million, up 58.5% YoY. With regard to SME deposits, the Management believes that TBC has the largest shares on the market, as demonstrated by its strong customer base.

In SME deposits, current and saving accounts represented 88.1% as at 31 December 2013, compared to 87.1% in the previous year. With regard to SME deposits dollarization, foreign currency SME deposits represented 47.0% of total SME deposit portfolio.

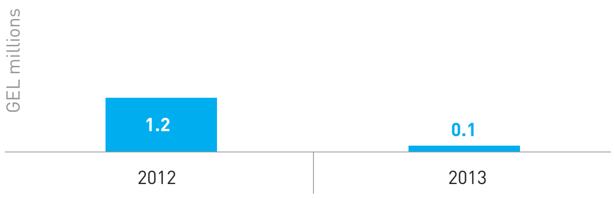
SME Segment Profitability

INTEREST INCOME AND EXPENSE*

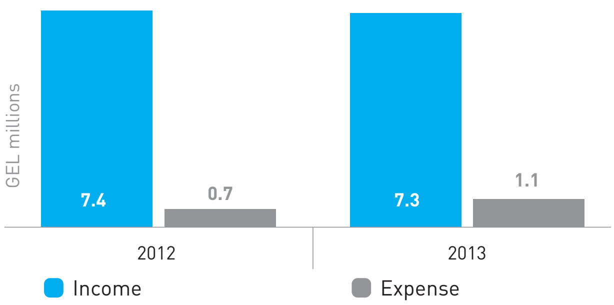


* Figures in the chart exclude transfer pricing.

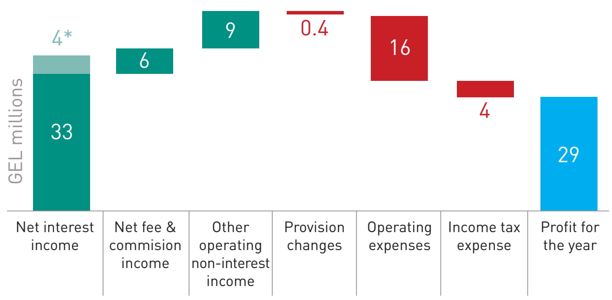
LOAN IMPAIRMENT EXPENSE



FEE & COMMISION INCOME AND EXPENSE



SME SEGMENT NET INCOME



* Figure relating to transfer pricing.

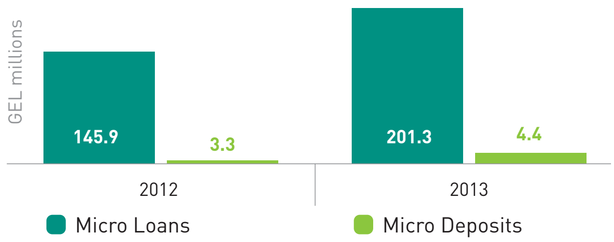
In 2013, SME loan yields and deposit rates stood at 13.5% and 2.3% respectively. In terms of profitability, SME segment net profit reached GEL 28.6 million, or 23.0% of the Group's total net income.

Micro Banking/Bank Constanta

All micro customers of TBC are served though our subsidiary Bank Constanta. The Micro segment is the smallest but fastest growing segment of TBC, accounting for 6.8% and 0.2% of the total loans and deposit portfolios respectively as at 31 December 2013. The Micro segment offers various types of loan and deposit products tailored to the needs of its clients including lending products (mini loans, business loans, agricultural loans, seasonal loans, international bank guarantees, local bank guarantees) and deposit products and payment solutions (current accounts, savings accounts, term deposits, wire transfers, payroll services, internet banking, kiosk banking).

As at 31 December 2013, TBC served around 28 thousand customers[a] through its Micro segment and had around 28 thousand outstanding loans.

MICRO SEGMENT DYNAMICS

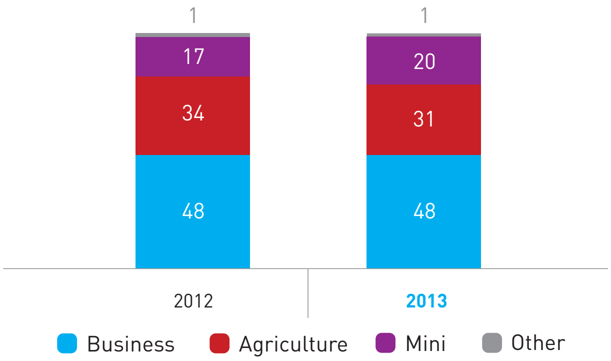


[a] Micro segment customers are calculated as Bank Constanta's number of borrowers that fall under micro segment. The remaining micro borrowers of Bank Constanta are added to the relevant retail and SME segments.

Micro Loans and Advances to Customers

Micro loans and advances to customers reached GEL 201.3 million as at 31 December 2013 with a growth rate of 37.9% YoY. Despite the absence of Micro segment market share data, the Management believes that the Group is a very strong player in the Micro segment, due to Bank Constanta's long and established presence in the Micro market.

MICRO LOAN PORTFOLIO BY PRODUCTS (%)



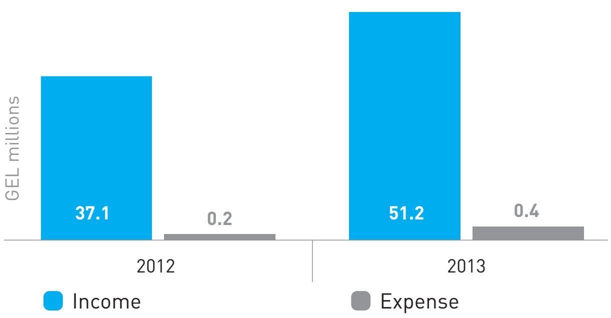
As at 31 December 2013, foreign currency loans represented 50.6% of the total micro portfolio.

Micro Customer Deposits

Micro customer deposits increased by 35.0% YoY, amounting to GEL 4.4 million as at 31 December 2013. In Micro deposits, current and saving accounts represented 44.1% as at 31 December 2013. In terms of Micro deposits dollarization, foreign currency Micro deposits represented 23.3% of the total Micro deposit portfolio.

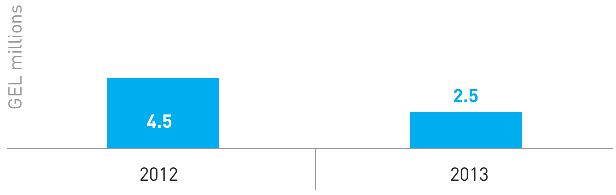
Micro Segment Profitability

INTEREST INCOME AND EXPENSE*

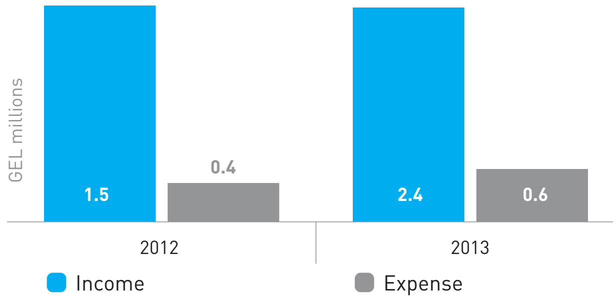


* Figures in the chart exclude transfer pricing.

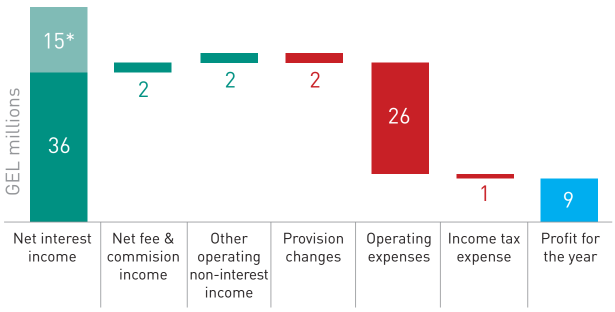
LOAN IMPAIRMENT EXPENSE



FEE & COMMISION INCOME



MICRO SEGMENT NET INCOME



* Figure relating to transfer pricing.

In 2013, Micro loan yields and deposit rates stood at 29.0% and 9.2% respectively. In the same period, the cost of risk was 1.4%. In terms of profitability, micro segment net profit reached GEL 9.1 million, or 7.3% of the Group's total net income.

TBC Kredit

TBC Kredit, which is 75% owned by TBC, is a non-banking credit organization that operates in the micro finance market in Azerbaijan. TBC Kredit's core business activity is Micro, SME, consumer and mortgage loans. TBC Kredit has its headquarters and four branches in Azerbaijan.

FINANCIAL REVIEW

In the first half of 2013, TBC Kredit issued and successfully placed its bonds in the amount of two million manats in Azerbaijan. Bond issue was immediately met with great interest in the market, and demand for bonds came from both local and foreign companies. The issue of bonds is an additional alternative financing tool for TBC Kredit that allows diversification of its lenders base, attracting funds from foreign and local financial institutions. During 2013, TBC Kredit's gross loans grew by 18.7%, with net income growing by 63.7% to GEL 3.3 million, delivering ROAE of 14.5%. The following table sets out selected balance sheet items of TBC Kredit as at 31 December 2013 and 31 December 2012.

TBC KREDIT SELECTED BALANCE SHEET ITEMS (in thousands GEL)	31-Dec-13	31-Dec-12	Change YoY
Net loans	70,224	59,642	17.7%
Total assets	**73,681**	**62,218**	**18.4%**
Borrowed funds	42,452	23,996	76.9%
Debt securities in issue	4,474	-	NMF
Total liabilities	**48,173**	**41,215**	**16.9%**
Total equity	**25,508**	**21,004**	**21.4%**

TBC Invest

TBC Invest, a fully-owned subsidiary of TBC Bank, was established in Israel in March, 2011. TBC Invest acts as an intermediary company between Israeli clients and TBC Bank and provides information and access to individuals and companies about TBC Bank's products, services, fees and interest rates. As at 31 December 2013 over 560 customers had opened accounts through TBC Invest and the deposit portfolio attracted from TBC Invest reached GEL 107.1 million.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Continually building on historically high corporate governance standards

High quality of corporate governance has always been a differentiating factor for TBC. Significant reinforcement of the corporate governance function was implemented in 2009, when prominent International Financial Institutions: IFC, EBRD, FMO and DEG became majority owners of the Bank and contributed their expertise and experience in this field.

TBC is a party to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia in September 2009, which was drafted with the guidance of IFC based on internationally recognized principles of good corporate governance. With the implementation of the Basel II / III project in 2012, TBC Bank was one of the first financial institutions in Georgia to further strengthen its corporate governance in accordance with Principles For Enhancing Corporate Governance issued by Basel Committee on Banking Supervision and to align its own corporate governance function with international standards of best practice.

SUPERVISORY BOARD REPORT

The Supervisory Board plays a key role in the Corporate Governance of the Bank. It has ultimate responsibility for the Bank's business, risk strategy and financial soundness, as well as how the Bank organizes and governs itself. The Board appoints and supervises the Management to ensure achievement of the Bank's strategic objectives, as well as the Management's ongoing response to the risks inherent to the business activities. The Board is also responsible for the appointment, evaluation and compensation of the Management Board members.

In addition, the Board is responsible for the following specific areas:

- Approving purchases or disposals by TBC Bank that exceed 3% of the Bank's total regulatory capital;
- Approving the issuance of procura (general power of attorney) by the management of TBC Bank;
- Approving the establishment and liquidation of TBC Bank's branches;
- Authorizing any borrowing by TBC Bank if such borrowing exceeds 20% of the Bank's regulatory capital;
- Electing, changing or removing the external auditor;
- Approving the listing of TBC Bank's shares on a stock exchange;
- Approving investments by TBC Bank, which exceed an aggregate total amount of U.S.$1 million;
- Approving any sale, lease, exchange, transfer, pledge, contribution or other disposition of the assets of TBC Bank and certain of its subsidiaries exceeding 5% of the book value of TBC Bank;
- Approving disposals of TBC Bank's assets, which exceed 5% of the Bank's regulatory capital;
- Approving TBC Bank's financial indicators for the following year, including its business plan or annual budget; and
- Approving the entering into related party transactions above USD 100,000.

The Supervisory Board consists of seven members elected by the General Meeting of Shareholders for a term of four years each. The Chairman and the Deputy Chairman of the Supervisory Board are elected by a simple majority of votes. The Chairman of the Supervisory Board may not simultaneously hold the position of General Director (CEO) of TBC Bank. The following table provides details on the Supervisory Board members and their respective appointment year.

Supervisory Board Composition

Name	Position	Initial Year of Appointment	Date of Appointment of Current Term	Date of Expiration of Current Term
Mamuka Khazaradze	Chairman of the Supervisory Board	1992	2013	2017
Badri Japaridze	Vice-Chairman of the Supervisory Board	1992	2013	2017
Eric J. Rajendra *	Member (Nominated by IFC)	2010	2010	2014
Irina Schmidt	Member (Nominated by DEG)	2012	2012	2016
Nicholas Dominic Haag	Member (Nominated by EBRD)	2013	2013	2017
Emile Groot **	Member (Nominated by FMO)	2009	2013	2013
Nikoloz Enukidze	Independent Member	2013	2013	2017

Two consequent changes have been applied as at the Annual Report publication date.

* The term for Eric J. Rajendra has been extended for four more years until 4 May 2018.

** Stefano Marsaglia was appointed as the new independent member of the Supervisory Board after FMO waived its right to nominate a Supervisory Board member.

In 2013, the Supervisory Board met 24 times: 4 in person and the rest via email and teleconference.

CORPORATE GOVERNANCE

Supervisory Board Meeting Atendance

Name	Scheduled Meetings Eligible to Attend	Scheduled Meetings Attended *	Additional Meetings Eligible to Attend	Additional Meetings Attended *
Chairman Mamuka Khazaradze	4	4	20	20
Deputy Chairman Badri Japaridze	4	4	20	20
Non-executive Directors				
Eric J. Rajendra	4	4	20	20
Irina Schmidt	4	3	20	20
Nicholas Dominic Haag	2	2	8	8
Emile Groot	4	3	20	20
Independent Member Nikoloz Enukidze	2	2	8	8

Corporate Secretary Irma Dvali

* attended in person or via teleconference.

BIOGRAPHIES OF THE SUPERVISORY BOARD MEMBERS

Mamuka Khazaradze
Chairman of the Supervisory Board

Mr. Khazaradze graduated from the Technical University of Georgia in 1988 and also holds a diploma from Harvard Business School. Between 1988 and 1989, he worked as an engineer at the Projecting-Technological Scientific Research Institute in Tbilisi. In 1991 and 1992, respectively, he founded and became the President of TBC Bank. In 1995 he founded IDS Borjomi Georgia, Borjomi Beverages Co. N.V., where he held the position of President until 2004, and between 1999 and 2002, he acted as Vice Chairman of the Supervisory Board of Microfinance Bank of Georgia. In 2004, Mr. Khazaradze also founded the Georgian Reconstruction and Development Company, of which he is still the President. Between 1997 and 2007, he was also Vice President of the Olympic Committee of Georgia. Since 2000 he has been a partner and the President of NGO New Movement, and since 2010 has served as the Chairman of the Board of the American Academy in Tbilisi and the Chairman of the Supervisory Board of Lisi Lake Development. Mr. Khazaradze has been the Chairman of the Supervisory Board since TBC Bank's incorporation in 1992.

Badri Japaridze
Vice Chairman of the Supervisory Board

Mr. Japaridze graduated from the faculty of psychology of Tbilisi State University in 1982 and also holds a postgraduate qualification from the Faculty of Psychology of Moscow State University. In 2001 he also completed an executive course at the London School of Economics and Political Science. Between 1990 and 1992, Mr. Japaridze was a member of the Parliament of Georgia. In 1992, he was appointed as Head of the Foreign Relations Department at TBC Bank and was appointed as Vice President of TBC Bank in 1993. In 1996, he was elected as Chairman of the Board of TBC TV LLC, a position he still retains. Since 1995, he has held the position of Vice President of IDS Borjomi Georgia, Borjomi Beverages Co. N.V., of which he is a co-founder, and acted as a member of the Board of that company between 2004 and 2010. In 1995, Mr. Japaridze was elected to TBC Bank's Supervisory Board and has held the position of Vice Chairman of the Supervisory Board since 1996. Since 2004, he has also acted as a member of the Supervisory Board of the American Chamber of Commerce in Georgia and the Georgian Reconstruction and Development Company, of which he is co-founder. Mr. Japaridze was elected to the Supervisory Board of the EU-Georgian Business Council in 2006 and later became the Vice Chairman. In 2008, he was elected to the Supervisory Board of Geoplant, a position he retains today. Mr. Japaridze is also the Chairman of the Supervisory Board of TBC Kredit, and a member of the Supervisory Board of TBC Leasing and Bank Constanta.

Eric Jeyarajan Rajendra
Member of the Supervisory Board (nominated by IFC)

Mr. Rajendra graduated from Brandeis University (B.A.), earned his M.A. at the Fletcher School in 1982 (Tufts University in cooperation with Harvard University) and conducted postgraduate research at INSEAD Business School in the areas of financial markets and institutions. Mr. Rajendra is also a graduate of the Australian Institute of Company Directors and was formerly an Adjunct Professor of Strategy at INSEAD. Since 2005, he has held the position of Senior Advisor to the IFC and has served as a Board Director or Consulting Advisor on selected emerging markets financial institutions where the World Bank Group has an equity interest, as well as leading strategic initiatives for the firm. Prior to joining the IFC, he was a Vice President at Capgemini and a Vice President at Electronic Data Systems; in both institutions he was a key leader of the financial services practice. From 2010 to 2012 he was a member of the Board of Directors at Orient Express Bank. Since 2006 he has been a member of the Board of Directors of Locko Bank where he is also the Chairman of the Audit and Risk Committee. He started his career as a banker at JP Morgan Chase Bank in 1982 and later became a partner at McKinsey & Company. Mr. Rajendra was appointed to the Supervisory Board in 2010. Since 17 December 2012 he has served as the Chairman of the Supervisory Board Corporate Governance and Nomination Committee and a member of the Supervisory Board Audit Committee.

CORPORATE GOVERNANCE

Irina Schmidt (Burkowa)
Member of the Supervisory Board (nominated by DEG)

Ms. Schmidt graduated from St. Petersburg State University with a degree in foreign languages and literature in 1994 and obtained DES from Geneva University in 1999 and an MBA from Europa-Institut (Saarland University) in 2001. Since 2001, Ms. Schmidt has held a number of positions in DEG, including Investment Manager and Senior Investment Manager with Power of Attorney (Prokura). Since 2007, Ms. Schmidt has served as a Vice President of DEG in Europe/ Middle East/Central Asia with responsibility for new business development, project evaluation and the management of DEG's portfolio in the Caucasus region. Since 2012 she has been a Board member of Bank Republika in Azerbaijan. Ms. Schmidt was appointed to the Supervisory Board (as the nominee for DEG) in 2012. She is also the Chairperson of the Supervisory Board Remuneration Committee, a member of the Supervisory Board Corporate Governance and Nomination Committee and a member of the Supervisory Board Risk, Ethics and Compliance Committee.

Nicholas Dominic Haag
Member of the Supervisory Board (nominated by EBRD)

Mr. Haag earned an M.A. from the University of Oxford with a degree in modern studies in Geography in 1980. Mr. Haag has 32 years of experience working in the financial services industry, with a significant emphasis on equity capital markets. His experience includes seven years at Barclays Bank between 1980 and 1987 in various capital markets and project finance roles, including the Head of Equity Syndicate, Barclays de Zoete Wedd (BZW); ten years at Banque Paribas, Paribas Capital Markets between 1989 and 1999, initially as Deputy Head Global Equity Capital Markets and later Senior Banker and Head of European Client Coverage (ex-France); two years at ING Barings between 1999 and 2001 as Managing Director and Global Head of Technology Banking Group; six years at ABN AMRO between 2001 and 2007 based in London as Global Head of Technology Banking, Member of Global TMT Management Committee, Senior Managing Director and Member of the Senior Credit Committee; four years with the Royal Bank of Scotland between 2008 and 2012 and RBS Hoare Govett as Managing Director, Head of London Equity Capital Markets and Member of the Global Equities Origination Management Committee. Since 2012, he has served as a senior independent adviser to the Chairman of the Management Board and since 2013 as a member of the Supervisory Board of Credit Bank of Moscow and a financial consultant specialising in capital raisings and stock exchange flotations. Since 2012 he has acted as sole director of his own consulting company, Nicdom Limited. Mr. Haag was appointed to the Supervisory Board in 2013. He is chairman of the Audit Committee, Remuneration Committee and the Risk, Ethics and Compliance Committee of the Supervisory Board.

Stefano Marsaglia
Independent member of the Supervisory Board

Mr. Marsaglia graduated from Turin University with a degree in Economics and Commerce in 1978. Mr. Marsaglia has 35 years of experience in the financial services industry with particular expertise in corporate and investment banking in Europe and Latin America. In 1987, he was appointed Deputy Managing Director and Head of Investment Banking for Southern Europe at UBS and served as Assistant Director at Morgan Grenfell from 1983-1987. Mr Masaglia acted as Managing Director, Global Head of Financial Institutions and Co-Head of Investment Banking for Europe at Rothschild between 1992 and 2010, and as the Chairman of Global Financial Institutions of the Investment Banking Division at Barclays Bank, London between 2010 and 2014. Mr Masaglia currently serves as Executive Chairman of Corporate and Investment Banking at Mediobanca, London. Mr. Marsaglia was appointed to the Supervisory Board in 2014.

Nikoloz Enukidze
Independent member of the Supervisory Board

Mr Enukidze graduated from Tbilisi State University with a degree in physics in 1993 and obtained an MBA from the University of Maryland in 1996. Mr Enukidze has served as Managing Director of Corporate Finance for Concorde Capital, a leading Ukrainian investment banking firm; Assistant Director at ABN AMRO Corporate Finance in London for four years; Senior Manager of Business Development of Global One Communications LLC based in Reston, Virginia; and three years at ABN AMRO Corporate Finance in Moscow. After years of experience in the financial services industry, Mr. Enukidze served as Vice Chairman of the Supervisory Board of Bank of Georgia and was one of the key people leading the bank to a successful IPO on the London Stock Exchange, the first ever IPO in London for a company from the Caucasus region. In 2008, Mr. Enukidze was appointed as Chairman of the Bank of Georgia Board and he led the bank through the international and local financial crisis. Prior to joining TBC, Mr Enukidze also served as a chairman of the Supervisory Board of Galt & Taggart Securities. At present, as founder of Nine Oaks Advisors, Mr. Enukidze acts as financial advisor and investor on projects in Central and Eastern Europe and since 2011 has also served as an independent director of the Supervisory Board and member of the Audit Committee of TMM Real Estate Development Plc, a Ukrainian real estate development company listed on the Deutsche Börse since 2007, and since 2014 as the Chairman of the Supervisory Board of JSC Caucasus Minerals. Mr Enukidze was born and raised in Tbilisi and is a British national. Mr. Enukidze was appointed to the Supervisory Board as an independent member in 2013. He is a member of the Audit Committee of the Supervisory Board.

CORPORATE GOVERNANCE

SUPERVISORY BOARD COMMITEES

TBC Bank has established the Risks, Ethics and Compliance Committee, Remuneration Committee, Corporate Governance and Nomination Committee and Audit Committee in accordance with Georgian law, the Principles For Enhancing Corporate Governance issued by Basel Committee on Banking Supervision and in line with international standards of best practice. These committees assist the Supervisory Board to effectively perform its responsibilities. The following table sets out the various Committee compositions.

Composition of the Board Committees

Board Members	Audit Commitee	Remuneration Committee	Corporate Governance and Nomination Committee	Risks, Ethic and Compliance Committee
Mamuka Khazaradze				
Badri Japaridze			Member	Member
Eric J. Rajendra	Member		Chairperson	
Irina Schmidt		Chairperson	Member	Chairperson
Nicholas Dominic Haag *	Chairperson	Member		Member
Emile Groot **	Chairperson	Member		
Nikoloz Enukidze ***	Member	Member	Member	Chairperson
Other committee member	Member			

Chairperson Member

The following changes have been applied as at the Annual Report publication date:

* Nicholas Dominic Haag has replace Emile Groot as the Chairperson of the Audit Committee.

** The term for Emile Groot expired in 2013. Stefano Marsaglia was appointed as the new independent member of the Supervisory Board after FMO waived its right to nominate a Supervisory Board member.

*** Nikoloz Enuikdze has replaced Irina Schmidt as the new Chairperson of the Risks, Ethics and Compliance Committee. He has also joined the Audit Committee as an independent member.

Audit Committee
The Supervisory Board works with the Audit Committee in order to fulfil its oversight function. The Audit Committee responsibilities include: reviewing and monitoring the integrity of the Bank's financial statements, as well as the effectiveness of the internal control over financial reporting; reviewing and monitoring the performance of the internal audit function, as well as the performance, qualifications and independence of the external auditors of the Bank; reviewing and monitoring the risk management activities with the existing policies and procedures.

Risks, Ethics and Compliance Committee
The Supervisory Board receives reports, recommendations and assessment from the RECC on any actions to be taken regarding the Bank's risk management strategy, risk appetite and tolerance, as well as risk management system and risk policies. This includes credit, market, liquidity, operational, compliance, reputational and other risks of the Bank. RECC committee also reviews and approves large exposures to customers. Other main responsibilities of the Committee are to commit the Bank to the highest standards of ethical behaviour and to oversee the compliance function of the Bank.

Corporate Governance and Nomination Committee
The Supervisory Board receives recommendations from the Corporate Governance and Nomination Committee on matters related to developing Corporate Governance principles and guidelines applicable to the Bank, monitoring the Bank's governance practice against the international best practices, selecting and screening individuals qualified to become the candidates for the Supervisory Board and the Management Board membership. The Committee also makes recommendations to the Board on the composition of the Supervisory Board and the Management Board as well as on the composition and structure of the Supervisory Board Committees.

Remuneration Committee
Supervisory Board receives recommendations from the Remuneration Committee on the compensation system for the Supervisory and the Management Boards, reviewing achievements of and determining compensation for the Supervisory and Management Boards, the Highest Paid Employees and Heads of Business Lines. In addition, the Committee approves a long-term motivation program and supports its development, settling the compensation policy for the Bank's management representatives' dismissal, and approving an annual report prepared with regards to remuneration policy and practice.

Performance Assessment

In addition to the regular functions described above, the following list highlights the Board's performance in 2013:

Corporate Governance

2013 was the first year after the enhancements in corporate governance took place in accordance with the Principles For Enhancing Corporate Governance issued by Basel Committee on Banking Supervision. Therefore, one of the most important areas of focus for the Board was to ensure that the new initiatives are smoothly implemented, are effective going forward and are embedded into the Bank's structure.

Strategy, Financial Forecast and Budget

The Supervisory Board approved the Bank's strategy, the 2013 year budget and the 5 year forecast. Throughout the year, the Board closely monitored fulfilment of the strategy and budget performance and made appropriate changes when necessary.

Risk Management

The Supervisory Board approved the Bank's Risk Management Strategy, risk management policies, tolerance and appetite levels and monitored their implementation. The Board closely cooperated with the Risks, Ethics and Compliance Committee on actions that relate to the Bank's risk management function.

New Senior Management Compensation System and Supervisory Board Compensation System

The Board actively worked with the remuneration committee, external consultants and the Management to develop and approve a new compensation system for senior management of the Bank in accordance with the specifics of TBC Bank, international and regional best practices, Basel requirements and the Bank's future plans. The Board with the assistance of the Remuneration Committee also developed the Supervisory Board Compensation system approved by the General Meeting of Shareholders.

Composition and Organization of the Supervisory Board

In September 2013, the Board was further strengthened with the addition of two new members. Both members have thorough knowledge and experience of the international, relevant regional and local Georgian markets and will bring unique expertise crucial for the Bank's current stage and development plans. Nikoloz Enukidze became an independent member of the Supervisory Board thus enhancing the Bank's corporate governance structure. As at the Annual Report publication date, Stefano Marsaglia was appointed in March 2014 as a new independent member of the Supervisory Board after FMO waived its right to nominate a Supervisory Board member.

CORPORATE GOVERNANCE

Assessment of Effectiveness

The Supervisory Board Effectiveness Review is conducted every year in order to assess its performance. The 2013 Supervisory Board review has found that the Board effectively fulfilled all of its responsibilities and obligations and that the size, composition and qualification of the Board were in line with the Bank's requirements and future plans. During the coming year, the Board will focus on further strengthening the composition of the Supervisory Board with additional independent members.

SUPERVISORY BOARD COMMITTEE REPORTS

Audit Committee Report

According to the Georgian Banking Law, Georgian banks are required to have an audit committee which facilitates the activities of the internal audit and external auditors. The Audit Committee was established in accordance with the law and was further strengthened in line with the Principles For Enhancing Corporate Governance issued by Basel Committee on Banking Supervision and in line with international standards of best practice.

The Supervisory Board appoints the members of the Audit Committee. The Committee assists the Board in overseeing the quality and integrity of TBC's accounting policies, financial statements and disclosure practices, as well as the effectiveness of internal controls over financial reporting, its compliance with relevant laws and regulations, taxation obligations and relevant Codes of Conduct, the independence and performance of the internal and external auditors and TBC Bank's system of internal control and management of financial and non-financial risks. The Audit Committee reports directly to the Supervisory Board and meets on a quarterly basis.

The Audit Committee is composed of five members, three of whom are also members of the Supervisory Board. The Audit Committee meetings are held on a quarterly basis or in case of special need. The table below describes the committee composition and meeting attendance for 2013:

Audit Committee Composition

Name	Position	Year of Appointment	Scheduled Meetings Eligible to Attend	Scheduled Meetings Attended	Additional Meetings Eligible to Attend	Additional Meetings Attended
Emile Groot	Chairman *	2011	4	3	-	-
Nicholas Dominic Haag **	Member	2013	1	1	-	-
Givi Lemonjav	Member	2002	4	4	-	-
Eric J. Rajendra* **	Member	2012	3	3	-	-
Levan Zuroshvili	Member	2002	4	3	-	-

The following changes have been applied as at the Annual Report publication date:

* The term for Emile Groot expired in 2013. Nikoloz Enukidze has joined the Committee as an independent member.

** Nicholas Dominic Haag has replaced Emile Groot as the Chairperson of the Audit Committee.

*** The term for Eric J. Rajendra has been extended for four more years until 4 May 2018.

The Bank's committees' charters can be found at the TBC Bank Investor Relations website.

Assessment of Work Completed

Internal Control and Risk Management

The Audit Committee's responsibilities with regard to the Bank's internal control system are to conduct a review of the adequacy of the Bank's systems of internal control and report on its effectiveness to the Supervisory Board and shareholders of the Bank. During 2013, the Audit committee thoroughly reviewed all reports provided by the Internal Audit Department on the effectiveness of the Bank's internal controls, risk management and compliance functions and their consistency with appropriate policies and procedures in line with the Committee's responsibilities and obligations. The Committee also reviewed all identified and reported control weaknesses and respective management responses, and was actively involved in monitoring the fulfilment of internal and external auditor's recommendations on the reported control weaknesses.

Financial Reporting

During 2013, the Committee considered all issues related to financial reporting. More precisely, the Committee reviewed the compliance of TBC's financial statements with International Financial Reporting Standards (IFRS). Several meetings regarding this topic were also held with representatives of external auditors of TBC. During the meetings, the relevance of TBC's assessment of impairment charges was discussed and any significant issues arising from the audit of TBC's IFRS financial statements noted. Based on the discussion held and reviews performed, the Committee gained reasonable assurance that there were no going concern issues in preparing these financial statements and that all material issues had been disclosed.

Oversight of Internal Audit and External Audit

Internal Audit

The Audit Committee is responsible for assessing and monitoring the effectiveness the Internal Audit function of the Bank. In 2013, the Committee held quarterly meetings with the head of the Internal Audit, approved the audit plan and reviewed the adjustments made to it. In addition, the Audit Committee monitored the plan implementation and evaluated the actual work performed by the Internal Audit Department against the audit plan. The Committee also reviewed and approved the Internal Audit's quarterly reports and reported audit results to the Supervisory Board of the Bank, as well as monitored the implementation of recommendations and Internal Audit finding follow-ups undertaken by the Bank's Management. The Committee also reviewed and approved changes in audit methodologies, performed assessments of the internal audit function giving consideration to internal audit employees' competence and independence, as well as their ability to exercise professional judgment. The Committee subsequently concluded that the function generally conformed to the standards set by the Institute of Internal Auditors.

External Audit

The Audit Committee's responsibilities with regard to external auditors are as follows: providing recommendations to the Supervisory Board on appointment, re-appointment or removal of the external auditor, assessment of their performance, and monitoring of their objectivity and independence. PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch (PwC) was appointed as TBC's statutory auditor. To insure the external auditor's independence, the senior team members engaged in the audit process have been changed for the audit of the year 2013 financial statements. During the course of the year, the Committee held several meetings with both the audit partners and senior team members engaged in the audit to define and discuss material and significant issues and main risks facing TBC for the purpose of allying the audit plan and audit activities with the predefined risks. The Committee gained reasonable assurance that these risks had been properly addressed in the audit strategy and plan. The Committee conducted a review of the performance and effectiveness of PwC, which included an assessment of its independence and objectivity. Following such review, the Committee found that PwC was considered to be effective, objective and independent in its role as TBC's statutory auditor.

Assessment of Effectiveness

The RECC Committee Effectiveness Review is conducted every year by the Board and the individual Committee members in order to assess the Audit Committee's performance, as per international best practice standards in corporate governance. The review conducted for the year 2013 concluded that the Committee operates effectively. Going forward the committee will enhance its focus on the most significant risks for TBC.

CORPORATE GOVERNANCE

Risk, Ethics and Compliance Committee Report

The Risk, Ethics and Compliance Committee (RECC) was established in accordance with the Principles For Enhancing Corporate Governance issued by Basel Committee on Banking Supervision and in line with international standards of best practice.

The Committee is responsible for reviewing, assessing and recommending any actions to be taken by the Supervisory Board regarding TBC Bank's risk management strategy, risk appetite and tolerance, risk management system and risk policies. In addition, the RECC reviews and approves large exposures to customers in circumstances when the borrower's aggregate liability to TBC Bank exceeds 5% of TBC's Basel capital. Other main responsibilities of the Committee are to supervise TBC Bank's commitment to the highest standards of ethical behavior and to oversee TBC Bank's compliance function.

The Risk, Ethics and Compliance Committee consists of four members of the Supervisory Board. Members meet on a quarterly basis and schedule additional meetings when appropriate, including meetings held in line with their loan approval responsibly.

The following describes the committee composition and meeting attendance in 2013:

Risk, Ethics and Compliance Committee Composition

Name	Position	Year of Appointment	Scheduled Meetings Eligible to Attend	Scheduled Meetings Attended	Additional Meetings Eligible to Attend	Additional Meetings Attended
Irina Schmidt	Chairperson	2012	4	4	14	14
Nicholas Dominic Haag	Member	2013	2	1	6	6
Badri Japaridze	Member	2012	4	4	14	14
Nikoloz Enukidze *	Independent ember	2013	2	1	6	6

The following changes have been applied as at the Annual Report publication date:
* Nikoloz Enukidze has replaced Irina Schmidt as the Chairperson of the Risks, Ethics, and Compliance Committee.

The Bank's committees' charters can be found at the TBC Bank Investor Relations website.

Assessment of the Work Completed

Supporting the Supervision of Risk Management

The Committee reviewed the Risk Management Strategy aligned with TBC's business strategy as approved by the Supervisory Board. This strategy sets acceptable risk levels for all essential risks TBC faces and defines the associated management policy. As a part of the risk strategy, a detailed risk management development plan is outlined in order to ensure that business growth plans are properly supported by effective risk infrastructure and risks are adequately addressed.

The Committee reviewed and approved risk maps, the documents identifying significant risks faced by TBC. Major risks identified included credit, foreign exchange, interest rate, liquidity, operational, strategic and reputational risks. Throughout the year, the Committee actively supervised management and monitored development of those risk exposures. Among other activities, the RECC reviewed detailed reports on compliance with the risk appetite statement and appropriate limits, analysed development trends on different types of risks, reviewed the portfolio structure, quality and provisions, as well as credit risk limits, write-offs and foreclosed assets.

Credit Risk Management

The Committee reviewed NPLs, portfolio dynamics, concentrations, industry exposures, provisions and appropriate actions. It also reviewed the new rating system for retail and business loans implemented in the Bank during the year. The Committee also reviewed and closely monitored significant corporate restructured loan developments.

Approval of the Loans

The Committee reviewed and approved 16 applications for new loans or for changing limits on the existing loans with an amount higher than 5% of TBC Bank's Basel capital. The Committee received quarterly reports on such loan performance.

Liquidity, Interest Rate and Capital Management

The Committee reviewed the quarterly statement of the Interest rate development and current capital position and planning. In this regard, the committee approved the IRR limits and presented them to the Supervisory Board for approval. It also reviewed and approved the capital planning for 2013-2017 which consequently was approved by the Supervisory Board.

Developing Appropriate Culture of the Bank

Code of Conduct

The Code of Conduct regulates the internal policy for the Bank's employees. It covers topics such as discipline, conflict of interests, confidentiality, relations with staff and clients, and working conditions. Following the changes in the Georgian Labour Code, the Code of Conduct was revised and updated in August 2013 to ensure its full alignment with the new regulation. The document was assessed and approved by the RECC. The Committee also worked with the Corporate Governance and Nomination Committee to discuss the Code of Conduct and its alignment with international standards of best practice. Updates to the Code of Conduct were reported to the Supervisory Board.

Code of Ethics

The Bank's new Code of Ethics was approved in May 2013, upon review and approval by the Committee. This document regulates areas of corporate culture and corporate values for TBC Bank's employees. Updates to the Code of Ethics were reported to the Supervisory Board.

Supervising the Compliance Function

The RECC was involved in the establishment of the Compliance Department in the Bank in accordance with the Principles for Enhancing Corporate Governance issued by Basel Committee on Banking Supervision and in line with international standards of best practice. The Committee approved the Compliance Program presented by the Chief Compliance Officer on 5 December 2013. The Program regulates the implementation of the Compliance Policy of the Bank approved by the Supervisory Board on 22 May 2013. The Committee will start receiving quarterly reports and updates on compliance issues from the first quarter of 2014.

CORPORATE GOVERNANCE

Assessment of Effectiveness

The Risks, Ethics and Compliance Committee Effectiveness Review is conducted every year by the Board and the individual Committee members in order to assess the RECC performance, as per international standards of best practice in corporate governance. Year 2013 was the first full year of the Committee operations, which was especially effective in implementing appropriate rules and processes. Going forward the committee will enhance its focus on the credit risk management of TBC.

Corporate Governance and Nomination Committee Report

The Corporate Governance and Nomination Committee was established in accordance with the Principles For Enhancing Corporate Governance issued by Basel Committee on Banking Supervision and in line with international standards of best practice. The Committee is responsible for developing corporate governance principles and guidelines applicable to TBC, assessing the alignment of the Bank's governance practice with international standards of best practice, selecting and screening individuals qualified to become candidates for Supervisory Board and Management Board membership, considering and making recommendations to the Supervisory Board on its composition and that of the Management Board, as well as on the composition and structure of the Supervisory Board Committees.

The Corporate Governance and Nomination Committee consists of four members of the Supervisory Board. Members meet on a quarterly basis and schedule additional meetings when appropriate.

The following describes the committee composition and meeting attendance in 2013:

Corporate Governance and Nomination Committee Composition

Name	Position	Year of Appointment	Scheduled Meetings Eligible to Attend	Scheduled Meetings Attended	Additional Meetings Eligible to Attend	Additional Meetings Attended
Eric J. Rajendra *	Chairman	2012	4	4	5	5
Badri Japaridze	Member	2012	4	4	5	5
Irina Schmidt	Menber	2012	4	4	5	5
Nikoloz Enukidze	Independent Member	2013	2	2	2	2

The following changes have been applied as at the Annual Report publication date:
* The term for Eric J. Rajendra has been extended for four more years until 4 May 2018.

The Bank's committees' charters can be found at the TBC Bank Investor Relations website.

Assessment of Work Completed

In 2013 the Corporate Governance and Nomination Committee worked on the following items in line with its responsibilities and obligations:

- Defined the Committee Action Plan for 2013 and monitored its full implementation;
- Reviewed and discussed all structural changes and revisions to the organizational charter of the Bank, and affirmed term extension for relevant members of the Management Board until 2015;
- Worked with the Risks, Ethics and Compliance Committee on the review and approval of the new Code of Conduct of the Bank and ensured its compliance with the new Labour Code;
- Discussed and provided recommendations on the succession planning of Supervisory and Management boards over the long term;
- Reviewed and approved the compliance of the Bank's Corporate Governance function with National Bank of Georgia Requirements for Corporate Governance Self-Assessment for Commercial Banks Operating in Georgia;
- Reviewed and continued to closely monitor regulatory changes proposed and implemented by the National Bank of Georgia, particularly in regard to the new Capital Adequacy Requirements for Commercial Banks.

New Members of the Supervisory Board and Management Board

The Committee was involved in finding new candidates for Supervisory Board membership. It discussed proposed candidates, reviewed and interviewed shortlisted candidates for the two changes on the Board. The committee then presented the changes to the Supervisory Board for approval. As a result, the board was strengthened by two new members in September 2013.

The committee was involved in finding a candidate for the new Management Board member. It considered and interviewed suggestions for the new Chief Risk Officer. The Committee presented the selected candidate together with the recommendation from the CEO for Supervisory Board approval. For further information please see www.tbcbank.com.ge/ir.

The Committee was also actively involved in the appointment of the new Head of the Compliance Department of the Bank.

Assessment of Effectiveness

The Corporate Governance and Nomination Committee Effectiveness Review is conducted every year in order to assess the Committee's performance. This assessment is carried out by Committee members themselves and by the Supervisory Board as a whole, in line with international standards of best practice in corporate governance. The 2013 Corporate Governance and Nomination Committee review has found that the Committee effectively fulfilled all of its responsibilities and obligations.

Remuneration Committee Report

The Remuneration Committee was established in accordance with the Principles For Enhancing Corporate Governance issued by Basel Committee on Banking Supervision and in line with international standards of best practice. It advises the Supervisory Board on the compensation system for the Supervisory and Management Boards, including reviewing the achievements of and determining the remuneration for the Supervisory Board and Management Board, the heads of TBC's business segments as well as for certain employees of the Bank. The Committee is also responsible for approving members of the long-term management incentive program and supporting its development. It sets the compensation policy relative to the dismissal of key members of management, and it approves annual reports of remuneration policy and practice.

The Remuneration Committee consists of four members of the Supervisory Board. Members meet on a quarterly basis and schedule additional meetings when appropriate. The following describes the committee composition and meeting attendance in 2013:

CORPORATE GOVERNANCE

Remuneration Committee Composition

Name	Position	Year of Appointment	Scheduled Meetings Eligible to Attend	Scheduled Meetings Attended	Additional Meetings Eligible to Attend	Additional Meetings Attended
Irina Schmidt	Chairman	2012	4	4	1	1
Emile Groot *	Member	2012	4	4	1	1
Nicholas Dominic Haag	Member	2013	2	2	-	-
Nikoloz Enukidze	Independent Member	2013	2	2	-	-

The following changes have been applied as at the Annual Report publication date:
* The term for Emile Groot expired in 2013.

The Bank's committees' charters can be found at the TBC Bank Investor Relations website.

Assessment of Work Completed

Senior Management Compensation System

The Remuneration Committee was actively involved in developing the new management compensation system following the expiration of the old management remuneration system. To ensure that the system considers all the specifics of TBC Bank, meets international and regional best practices, as well as the Basel requirements, and is aligned with the Bank's future plans, the committee used a study on TBC Bank's senior management compensation system developed by a reputable company with significant experience in this field and then hired another respected third party to address specific areas.

The Committee actively discussed all matters related to the new system with the two companies. The Committee approved the new Senior Management Compensation System for 2013-2015 based on the recommendations received. The Committee presented the System to the Supervisory Board for approval. Components of the system related to the compensation of the Chairman and Deputy Chairman of the Supervisory Board were also approved by the General Meeting of Shareholders.

Supervisory Board Compensation System

Based on the two studies mentioned above, the Committee developed the Supervisory Board compensation system that was approved by the Supervisory Board and the General Meeting of Shareholders.

Approval of Cash Incentives and Share Base Payment to Senior Management of the Bank for the Performance of 2012 year

In accordance with the Senior Management Compensation system for 2010-2012, the Committee reviewed and approved the achievement, the appropriate evaluation, and the bonus arrangement for members of the Bank's Top Management for the 2012 performance.

Other Activities

The Committee also developed new KPIs for certain members of the Senior Management Team in accordance with the Senior Management Compensation System for 2013-2015 and approved their job descriptions. The Committee also reviewed and approved the updated contracts for the Management Board members, effective from 1 July 2013.

Assessment of Effectiveness

The Remuneration Committee Effectiveness Review is conducted every year in order to assess the performance of the Committee. This assessment is carried out by Committee members themselves and by the Supervisory Board as a whole, in line with international standards of best practice in corporate governance. The 2013 Remuneration Committee review has found that the Committee effectively fulfilled all of its responsibilities and obligations.

MANAGEMENT BOARD

The Management Board is responsible for TBC's day-to-day management, with the exception of functions reserved to the General Meeting of Shareholders and the Supervisory Board. The Supervisory Board appoints the members of the Management Board for renewable terms of four years and are is also in charge of their dismissal. Banking regulations contain certain limitations as to who may become a member of the Management Board and criteria that each director must fulfil. The scope of authority of each member of the Management Board is defined by a contract entered into with the director upon appointment.

TBC Bank has established the following Management Board Committees: Credit Committee, Assets and Liabilities Management Committee (ALCO), Operational Risk Management Committee, Customer Satisfaction Committee, IT Steering Committee, Change Advisory Board Committee and Operations Management Committee.

The following table sets out the Management Board composition for year 2013.

Management Board Composition

Name	Position	Initial Year of Appointment	Date of Appointment of Current Term	Date of Expiration of Current Term
Vakhtang Butskhrikidze	Chairman of the Management Board Chief Executive Officer	1995	2010	2015
Paata Gadzadze	First Deputy Chief Executive Officer	1996	2010	2015
Giorgi Shagidze	Deputy CEO, Chief Financial Officer	2010	2010	2015
Vano Baliashvili	Deputy CEO, Chief Operating Officer	2002	2010	2015
Archil Mamatelashvili *	Deputy CEO, Chief Risk Officer	2014	2014	2018
Mariam Meghvinetukhutsesi	Deputy CEO, Corporate Banking	2009	2010	2015
Nino Masurashvili	Deputy CEO, Retail & SME Banking	2006	2010	2015

The consequent change has been applied as at the Annual Report publication date:
* Archil Mamatelashvili was appointed as the new CRO in January 2014.

CORPORATE GOVERNANCE

BIOGRAPHIES OF THE MANAGEMENT BOARD MEMBERS

Vakhtang Butskhrikidze
CEO

Mr. Butskhrikidze graduated from Tbilisi State University in 1992 with a degree in Economics and holds post graduate qualifications from the Institute of Economics, Academy of Sciences of Georgia and the European School of Management in Tbilisi. He obtained an MBA from European School of Management in Tbilisi in 2001. Between 1993 and 1994, he acted as Junior Specialist at the Institute of Economics, Academy of Sciences of Georgia, as well as Assistant to the Minister of Finance of Georgia. Mr. Butskhrikidze joined TBC as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC's committees. Mr. Butskhrikidze is also a member of the Supervisory Boards of the Association of Banks of Georgia and the Georgian Stock Exchange and is the Chairman of the Financial Committee of the Business Association of Georgia. Since 2011 he has also held the position of a member of the Supervisory Board of the Partnership Fund, Georgia. In 2001, Mr. Butskhrikidze was honoured with the "Best Businessman of the Year" award by Georgian Times Magazine and in 2011 he was recognised as the "Best Banker 2011" by *GUAM – Organization for Democracy and Economic Development*.

Paata Gadzadze
First Deputy CEO

Mr. Gadzadze graduated from Tbilisi State University in 1992 with a degree in Economics and holds a postgraduate qualification from the Institute of Economics, Academy of Sciences of Georgia. Between 1992 and 1994, he was the Assistant to the Minister of State Property Management. Mr. Gadzadze held the position of lecturer at the European School of Management in Tbilisi between 1994 and 2004. Mr. Gadzadze joined TBC in 1994 as Deputy General Director of TBC Bank and was appointed to the Management Board in 1996. In 2005 he was also the head of the Credit Department. Mr. Gadzadze has held the position of First Deputy CEO since 1998. Between 2000 and 2004, he also served as the CEO of Georgian Pension and Insurance Holding. Since 2007 he has held the position of the Chairman of the Supervisory Board of UFC.

Giorgi Shagidze
Deputy CEO, Chief Financial Officer

Mr. Shagidze graduated from Tbilisi State University in 1997 with a degree in Economics. He obtained an MBA from the University of Cambridge Judge Business School in 2008. Between 1996 and 2001, Mr. Shagidze worked at Agro Industrial Bank of Georgia as the Head of Credit Investment Department, Head of International Payments, Customer Relationship Manager, Dealer and Applications Developer. Between 2001 and 2005, he worked at Tbiluniversalbank, where he held the positions of CEO, Deputy CEO, Head of IT and Branch Manager. In 2005, he became Director of Distribution Channels Division at the Bank of Georgia before becoming Deputy CEO of the Peoples Bank of Georgia in 2005. Between 2008 and 2010, Mr. Shagidze acted as a Global Operations Executive for Barclays Bank Plc. He became Deputy CEO and Chief Financial Officer of TBC Bank and was appointed to the Management Board in 2010. Since 2011 he has been a member of the supervisory board of Bank Constanta.

Vano Baliashvili
Deputy CEO, Chief Operating Officer

Mr. Baliashvili graduated from Tbilisi State University in 1992 with a degree in Economics and obtained and MBA from the European School of Management in Tbilisi. In 2011 he obtained a Master's Certificate in Project Management from George Washington University, school of business. Between 1993 and 1995, he held the positions of Intern Accountant and Accountant at Commercial Bank Sandro and Chief Accountant at Commercial Bank Shalen. Between 1995 and 1999, he held the positions of Economist, Foreign Exchange Division, Head of the Foreign Exchange Department, and Head of the Internal Audit Department at JSC TbilCredit Bank. Mr. Baliashvili joined TBC in 1999 as Head of Service, Internal Audit and Control. He became Finance Division Chief in 2000 and has held the position of Deputy CEO, Chief Operating Officer since 2002. Since 2008, Mr. Baliashvili has also held the position of Chairman of the Supervisory Board of UFC. He was appointed to the Management Board in 2002.

CORPORATE GOVERNANCE

Archil Mamatelashvili
Deputy CEO, Chief Risk Officer

Mr. Mamatelashvili graduated from Tbilisi State University in 1995 with a degree in Economics. Between 1996 and 1998, Mr. Mamatelashvili worked at GRC Consulting (Georgian branch of Delaware based consulting company) as Financial Consultant and between 1998 and 2000 at KPMG LLP/Barents Group LLC, Capital Makets Development Project in Georgia sponsored by USAID as a consultant before joining Shore Bank Advisory Services as Senior Loan Officer implementing IFC Real Estate Lending Program. He obtained and MBA from Weatherhead School of Management, Case Western Reserve University, Clevenand in 2002 and had an MBA internship at Delta Lloyds, as Investment Analyst in Budapest, Hungary. Between 2003 and 2004, Mr. Mamatelashvili acted as Chief Risk Officer at Tbiluniversalbank before becoming Financial Consultant to the Supervisory Board at JSC National Oil Company "Georgian Oil" in 2004. Between 2005 and 2007, he acted as Deputy Minister of Energy and Infrastructure of Georgia before becoming Chief Executive Officer at JSC Caucasus Energy and Infrastructure. Later he became Chief Investment Officer at Future Products Company ltd. He was appointed to the Management Board in 2014.

Mariam Megvinetukhutsesi
Deputy CEO, Corporate Banking

Ms. Megvinetukhutsesi graduated from Tbilisi State University with a degree in Foreign Languages and Literature in 1991 and in Banking and Finance in 1996 and received an MBA from University of Edinburgh in 2007. Between 1991 and 1992, she held the position of lecturer at Tbilisi State University, before being appointed as State Advisor to the International Relations Department of the Council of Georgia. Between 1994 and 1996, Ms. Megvinetukhutsesi acted as a Freelance Translator/Interpreter working for various international financial institutions. Between 1996 and 2007, she held the positions of Advisor, Senior Financial Analyst, Banker and Senior Banker at the EBRD. Ms. Megvinetukhutsesi joined TBC in 2007 as Director of Investment Banking and was appointed as Deputy CEO, Corporate Recovery and to the Management Board in 2009. Since 2011 she has held position of Deputy CEO, Corpoare Banking. Between 2009 and 2011 she also served as a member of the Supervisory Boards of TBC Leasing and TBC Kredit.

Nino Masurashvili
Deputy CEO, Retail & SME Banking

Ms. Masurashvili graduated from Tbilisi State University in 1996 with a degree in Economics and obtained an MBA from the European School of Management in Tbilisi. Between 1995 and 2000, she held the positions of Credit Account Manager, Credit Officer, Financial Analyst (Financial Department) and Head of Financial Analysis and Forecasting Department at JSC TbilComBank. Between 1998 and 2000, she also held the position of Accountant at the Barents Group. Ms. Masurashvili joined TBC in 2000 as Manager in the Planning and Control Department and became head of that department in 2002. Between 2004 and 2005, she acted as Head of the Sales Department and Retail Bank Coordinator. Ms. Masurashvili was appointed as Deputy CEO, Retail and SME Banking and to the Management Board in 2006. Between 2006 and 2008 Ms. Masurashvili was the Chairman of the Supervisory Board of UFC. Since 2011 she has also held a position as a member of the Supervisory Board of TBC Kredit and Bank Constanta.

MANAGEMENT BOARD COMMITTEES

In order to effectively carry out its daily responsibilities, the Management Board has established the following committees:

Credit Committee

The Credit Committee is composed of top and middle managers of TBC Bank, is chaired by the CEO and meets once a month or more frequently, as required. The exact composition of the Credit Committee varies among the retail, corporate, SME and micro segments. The Credit Committee reports to the Management Board.

The Credit Committee is responsible for maintaining loan portfolio quality within acceptable risk levels and ensuring that TBC's lending guidelines are consistent with relevant legislation and regulatory policies. The Credit Committee reviews the quality of TBC's loan portfolio on a regular basis and monitors and controls the recovery and collection process in respect of TBC's loans. It informs the Management Board about notable developing trends and recommends necessary actions in order to take advantage of new opportunities and maintain proper portfolio diversification.

The Credit Committee delegates its loan approval authority to the Loan Approval Committees.

Assets and Liabilities Management Committee (ALCO)

The ALCO has nine members, is chaired by the CEO and meets once a month or more frequently, as required. It is supported by middle management from TBC Bank's finance operations. The ALCO reports to the Management Board.

CORPORATE GOVERNANCE

The ALCO is responsible for overseeing the effective implementation of TBC Bank's asset and liability management policies in order to (I) maximize shareholder value and enhance profitability, (II) ensure that liquidity, interest rate, foreign exchange, capital adequacy and interbank counterparty risks are managed efficiently within the Risk Appetite Statement, and (III) ensure compliance with existing covenants and limits from the NBG, IFIs and other third parties. The functions of the ALCO include setting and monitoring risk exposure limits based on reports, analysis, forecasts, stress tests and hypothetical scenarios prepared by TBC's financial risk management and other functions; approving risk management methodologies; making decisions and amendments to TBC's asset liability structure; approving risk hedging instruments; and deciding on corrective actions in case specified limits are breached. The ALCO is given authority to make a number of decisions regarding TBC's assets and liabilities under its governing documents, although authorization for certain decisions is reserved to the Management Board.

Operational Risks Committee

The Operational Risks Committee has six members comprising top and middle managers of TBC Bank and is chaired by the CEO. The Operational Risks Committee reports to the Management Board.

The Operational Risks Committee is responsible for reviewing operational risks faced by TBC, overseeing these risks and making decisions in order to minimize them. Meetings of the Operational Risks Committee are held on a quarterly basis or more frequently, as required.

The Operational Risks Committee functions are to review and approve operational risk management policy; review and approve recommendations related to the development of the risk management framework; review and approve the limits of risk insurance; discuss reports on operational risks; monitor critical risks; and prepare recommendations for the Management Board on these issues.

Other Committees

The Customer Experience Management Committee is responsible for overseeing and ensuring customer satisfaction. The Committee is chaired by the CEO with membership comprised of top and middle managers.

The IT Steering Committee is responsible for prioritization and approval of IT projects and the IT project portfolio performance oversight. The Committee is chaired by the Deputy Chief Information Officer with membership comprised of top and middle managers.

The Change Advisory Board Committee is responsible for review and approval of all IT related change requests initiated by different business units. The Committee is chaired by the Deputy Chief Information Officer with membership comprised of top and middle managers.

The Operations Management Committee is responsible for developing and improving the service processes in the Bank. The Committee is chaired by the CEO with membership comprised of top and middle managers.

The Problem Loans Committee is responsible for monitoring TBC's portfolio of problem assets through all phases of collection. The Committee is chaired by the CRO with membership comprised of top and middle managers.

RISK MANAGEMENT

RISK MANAGEMENT

Contributing to the development of TBC's business strategy by ensuring risk-adjusted profitability and securing sustainable development through the implementation of an efficient risk management system

TBC considers its risk management function to be fundamental to its business. The main objectives of risk management are to contribute to the development of TBC's business strategy by ensuring risk-adjusted profitability and guarantee TBC's sustainable development through the implementation of an efficient risk management system. The major inherent risks of TBC's business are credit risk, liquidity risk, market risk (including interest rate and foreign currency risk), operational risk, strategic risk and reputational risk. TBC'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. TBC systematically reviews and continuously seeks to improve its risk management policies and systems to ensure that they are in line with any new challenges it faces.

TBC's risk management strategy identifies significant risks it faces, formulates risk appetite limits and communicates the risk management framework. The risk management process consists of the following stages:

Risk identification	Identification of the full range of business level risks TBC faces.
Risk assessment	Assessment of all identified risks based on the likelihood of occurrence and significance of their impact and creation of risk maps.
Control	Establishment of key control processes and practices, including limit structures and reporting requirements, and a formalized risk monitoring process to control adherence to predefined targets and risk limits.
Reporting	Establishment of an effective management information system in order to ensure a timely flow of information to the corresponding risk units.

The following principles are fundamental to TBC's risk management:

- *Sustainability.* TBC conducts its business with a view towards long-term sustainability. Therefore potential impacts on sustainability of TBC are assessed when making business decisions and when managing resources and infrastructure. TBC pursues a strategy that excludes any involvement in transactions that could pose an unacceptable risk for TBC's activities, development and reputation.

- *Materiality.* The materiality of each risk to which TBC is exposed across the corresponding asset classes is mainly determined based on size of exposure, the current nature of processes and related controls. All material risks are identified based on the risk identification and assessment processes that are undertaken regularly within TBC.

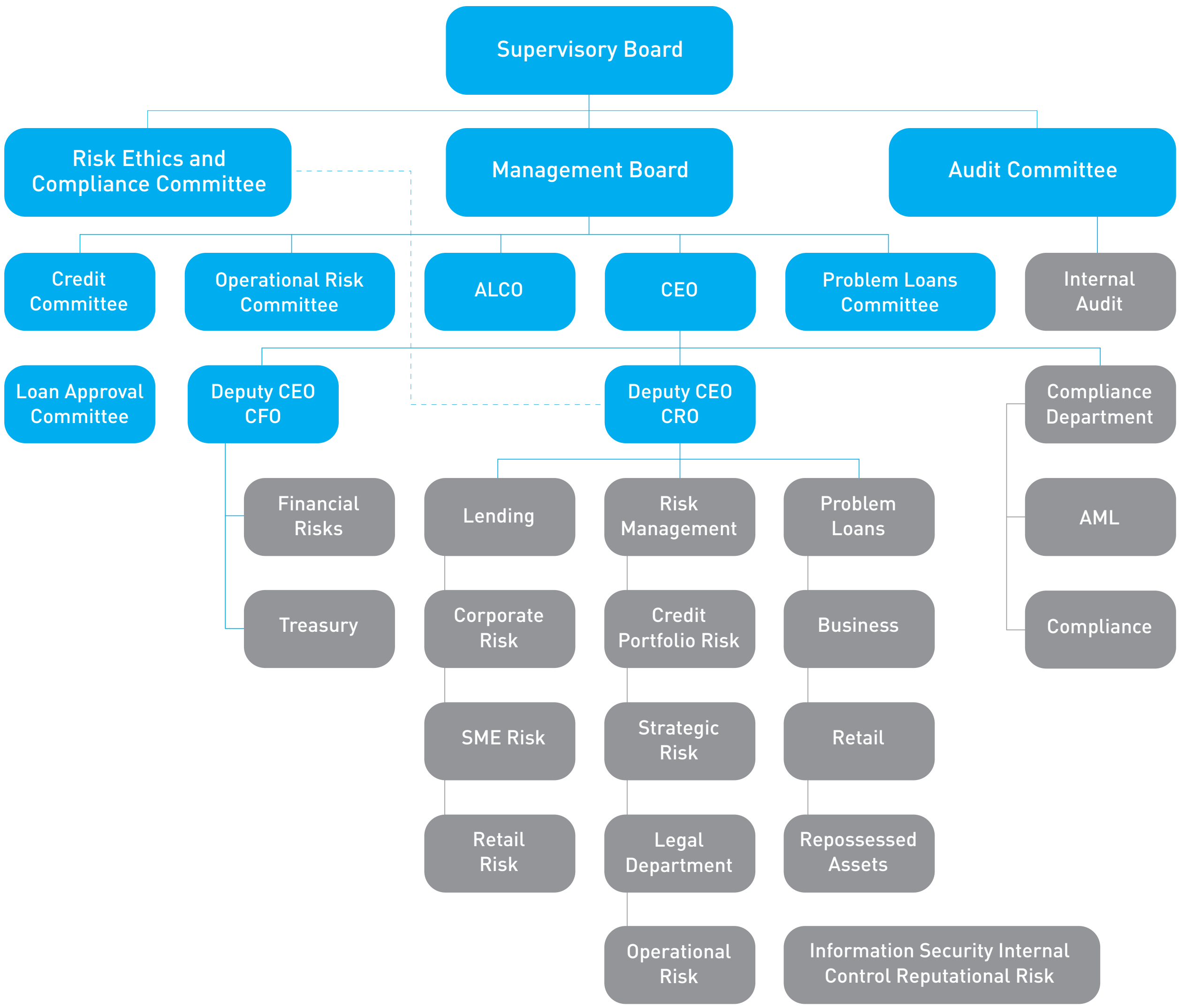
- *Proportionality.* The more material a risk exposure is, the more efforts and resources are devoted to its analysis and more sophisticated approaches and complex methods are applied to its measurement.

- *Risk acceptance / risk hedging.* The risk management framework within TBC encompasses all types of risks to which TBC is exposed to and that should be managed. TBC either accepts exposure to a risk or hedges against it, depending on the type of risk. TBC accepts risk exposure according to the predefined risk appetite limits set by the Supervisory Board and Management Board. Certain types of risks, such as operational risks, interest rate risk and market risks, are hedged by means of insurance and/or derivative transactions.

Risk Management Structure

TBC conducts its risk management activities within the framework of its unified risk management system. The following chart sets forth TBC's risk management structure:

In addition to this general risk management structure, which governs the entire TBC group, several of TBC Bank's subsidiaries (Bank Constanta, TBC Kredit and TBC Leasing) also have their own internal risk management structures.



RISK MANAGEMENT

Principal Risk Management Bodies

The monitoring and implementation of TBC'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 (ALCO) and the Problem Loans Committee.

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

Supervisory Board

The Supervisory Board is responsible for TBC's overall risk management. It approves TBC's risk management strategy, risk tolerance levels and policies that are recommended by the Management Board. The Supervisory Board approves credit portfolio forecasts and budgets and monitors TBC's performance. The Supervisory Board also approves decisions that fall outside of the scope of Loan Approval Committee's authority, such as extending loans to TBC Bank's related and connected parties. The Management Board presents comprehensive report regarding compliance with risk appetite limits, credit portfolio, and results of the enterprise wide stress test to the Supervisory Board on a quarterly basis. For more detailed information on the Supervisory Board, the Management Board, and relevant Committees, please refer to the *Corporate Governance* chapter of this Report.

Risk Management Implementation

TBC's risk management policies are implemented through a number of committees and 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.

Internal Audit Department

The Internal Audit Department is responsible for the audit of TBC's risk management processes. This audit includes in its scope the following aspects of risk management: the organization and mandates of the risk management function, including all types of risk thereunder; the compliance of procedures and decisions taken pursuant to the risk management function with predefined policies and procedures; the adequacy of risk management systems and processes for identifying, measuring, assessing, controlling, responding to, and reporting on all the risks resulting from TBC's activities; the integrity of risk management information systems, including the accuracy, reliability and completeness of the data used; and the approval and maintenance of risk models, including verification of the consistency, timeliness, independence and reliability of data sources used in such models. The Internal Audit Department discusses the results of all assessments with Management, and reports its findings and recommendations to the Audit Committee.

Financial Risk Management Department

The Financial Risk Management Department is involved in the management of financial risks arising from TBC's day-to-day banking activities, including liquidity risk, interest rate risk, foreign currency exchange risk and capital adequacy risk. It prepares various reports and analysis in order to assist ALCO in performing its main functions. The Financial Risk Management Department reports to the Chief Financial Officer and monitors compliance with the limits set by ALCO, regulators and international financial institutions, forecasts liquidity and other ratios and covenants, provides stress testing and analyses hypothetical scenarios.

Treasury Department

The Treasury Department is involved in short-term liquidity management, money-market and fixed income dealing, foreign exchange dealing and TBC Bank's overall open currency position management. The ALCO provides guides for the Treasury Department's operations on an ongoing basis and sets limits for bank counterparties. The Treasury Department is authorized to conclude foreign exchange, money market and fixed income deals within the limits approved by ALCO. The Treasury Department, along with the Financial Risk Management Department, prepares regular reports, which are presented to the ALCO and which are the primary means by which the ALCO supervises the Treasury Department's asset and liability management functions.

The Treasury Department undertakes a number of activities in relation to liquidity, money-market and fixed income dealing, including managing the distribution of cash and non-cash liquidity among TBC Bank's branches and nostros accounts, placing free liquidity (within approved limits by ALCO) with local and foreign counterpart banks, as well as investing in local sovereign debt securities. The Treasury Department also attracts short-term funding from local and foreign counterpart banks (when necessary) and conducts ongoing analyses of risks and opportunities aimed at ensuring that TBC Bank remains in compliance with limits set by the Financial Risk Management Department. The Treasury Department then prepares recommendations in respect of revised risk exposure limits for the ALCO. The Treasury Department also undertakes a number of functions to manage and constantly monitor TBC Bank's overall open currency position and to ensure compliance with the prudential ratios set by the NBG, as well as TBC Bank's internal policies. In addition, the Treasury Department is responsible for setting foreign exchange bid and ask rates, as well as monitoring and authorizing certain transactions on non-standard rates, conducting foreign exchange and derivative transactions with large clients in accordance with TBC Bank's foreign exchange pricing policy and advising clients on foreign exchange issues.

Credit Portfolio Risk Management Department

The Credit Portfolio Risk Management Department reports to the Chief Risk Officer and is responsible for the management of credit portfolio risk. The Credit Portfolio Risk Management Department ensures the maintenance of a balanced loan portfolio and the correspondence of actual risks to the predefined limits.

The Department prepares policies and procedures for efficient credit risk management, which are approved by the Supervisory Board or Management Board. The Credit Portfolio Risk Management Department is responsible for the timely identification and assessment of credit risks and outlining mitigation actions regarding those risks that should be reduced. This department develops adequate tools and models for effective credit risk management, such as application and behavioral scorecards and rating models. The department develops models for stress testing in order to assess credit exposures under various scenarios and make corresponding conclusions for capital adequacy purposes.

The Credit Portfolio Risk Management Department on a regular basis reviews and analyses portfolio dynamics, analyses underwriting standards and outlines recommendations for managing portfolio risks more efficiently. The Credit Portfolio Risk Management Department prepares regular reports for the Management Board, Supervisory Board, Credit Committee and Risk, Ethics and Compliance Committee in order to timely communicate information about portfolio quality trends and structure, compliance with risk appetite limits, TBC's related and connected party exposures, results of stress tests and outputs of the risk assessment process.

RISK MANAGEMENT

Corporate, SME, Micro and Retail Credit Risk Management Departments

The Corporate, SME and Retail Credit Risk management departments are involved in the applications approval process as members of the corresponding loan approval committees. Corporate, SME and retail credit risk managers review loan presentations on credit exposures prepared by the loan officers and credit analysts to ensure that the analysis is complete, that comprehensive information is gathered to assess the borrower's risk profile, that all relevant risks are identified and adequately addressed and that the loan is properly structured.

Corporate and SME credit risk managers also oversee the monitoring process of individual transactions in order to timely discover any deterioration in a borrower's repayment capability and undertake corresponding measures. The Corporate, SME and Retail Credit Risk Management Departments report to the Chief Risk Officer.

Applications for micro loans, which are not approved at the branch level, are reviewed by Bank Constanta's Credit Risk Management Department. In addition to application reviews, this department is responsible for micro loans portfolio quality monitoring and for the development of models for credit portfolio management.

Operational Risk Management Department

The Operational Risk Management Department implements a framework for identifying, assessing, measuring and reporting principles of operational risks. This operational risk management framework enables TBC's identification and assessment of operational risk categories within TBC's processes and operations; the detection of critical risk areas or groups of operations with an increased risk level; the development of response actions and the imposition of restrictions in critical risk zones to neutralize identified risk; and the development of business-process optimization schemes, including document circulation, information streams, distribution of functions, permissions and responsibilities. It ensures that operational risk is within TBC's risk appetite. The Operational Risk Management Department reports to the Chief Risk Officer.

Legal Department

The Legal Department ensures that TBC's activities conform to applicable legislation and works to minimize losses from the materialization of legal risks. The Legal Department is responsible for the application and development of mechanisms for identifying legal risks in TBC's activities in a timely manner, the investigation of TBC's activities in order to identify any legal risks, the planning and implementation of all necessary actions to eliminate identified legal risks and participation in legal proceedings on behalf of TBC where necessary. The Legal Department monitors all changes in relevant laws and regulations, and ensures that those changes are properly reflected in TBC's procedures, instructions, manuals, templates and other relevant documentation.

Compliance Department

The Compliance Department is focused on improving the entire compliance system. It is responsible for coordinating the identification, assessment and documentation of compliance risks associated with TBC's activities, including the development of new products and business practices, the proposed establishment of new types of business or customer relationships or material changes in the nature of such relationships and other related measures. The Compliance Department is authorized to plan and administer TBC's overall compliance systems, perform compliance-related direction and supervision, and instruct on corrective action and other measures to branches, offices, divisions, headquarters, subsidiaries, and affiliates, both in and out of Georgia, upon the occurrence of violations of compliance, all in an integrated fashion.

Anti-money laundering is one of the Compliance Department's main functions, established according to the compliance legislation and recommendations of competent international organizations. TBC is committed to high standards of anti-money laundering and requires Management and employees to adhere to these standards in order to prevent the use of TBC's products and services for money laundering purposes. Adherence to this policy is mandatory for all TBC group companies and for all employees.

BASEL IMPLEMENTATION PROJECT

Overview

TBC reached a significant milestone in its risk management development with the Basel II/III Implementation Project, undertaken in consultation with Ernst & Young LLC to enable TBC to implement industry best practices. The Basel II/III Implementation Project began in early 2012 and included significant improvements in TBC's overall risk management, particularly with respect to the following:

- Corporate governance enhancement: (I) Supervisory Board-level committees have been established, including a Risk, Ethics and Compliance Committee, a Corporate Governance and Nomination Committee, and a Remuneration Committee. (II) the Supervisory Board and Management Board regulations have been upgraded to reflect the Basel regulation requirements; (III) a centralized internal control function has been established to follow up internal control process at the level of all business processes. This internal control system ensures that activities are carried out in an efficient and orderly manner to achieve predefined business objectives, that management policies are adhered to and that assets, capital and profitability are safeguarded and records are accurate and reliable; and (IV) the centralized compliance function has been set up to coordinate the compliance risk, ensure effective monitoring of compliance with laws and regulations, supervisory requirements and internal regulations;

- Risk management strategy: (I) A risk strategy aligned with TBC's business strategy has been developed and has been approved by the Supervisory Board. This strategy is reviewed at least once a year, outlines all essential risks TBC faces and defines the associated management policy. As a part of the risk strategy, a detailed risk management development plan is outlined in order to ensure that business growth plans are properly supported by effective risk infrastructure and risks are adequately addressed. (II) Risk maps have been developed in order to better identify and evaluate risks TBC faces, thus ensuring that the business remains stable and risks are taken according to the predefined risk appetite limits;

- Credit risk management: The expert rating model for the assessment of corporate and SME borrowers has been updated. A statistical behavioral rating model has been developed for retail loans in compliance with Basel regulation;

- Liquidity Risk management: In addition to its existing Liquidity Coverage Ratio model (mismatch model) in order to be in line with the best practices, TBC has introduced a net stable funding ratio model and an upgraded liquidity contingency plan;

- Interest rate risk management: An interest rate risk management model has been developed according to industry best practices;

- Operational risk management: An internal advance measurement (AMA) model has been developed to calculate capital for operational risk;

- Reputational risk management: A reputational risk management system is in place to ensure clients' loyalty, the investment attractiveness of TBC and TBC's general relationship with all types of stakeholder perspectives;

- Strategic risk management: A strategic risk management function has been set up to maintain strategic risk at predefined levels in accordance with TBC's strategic objectives;

- Stress testing: A model has been developed to measure unexpected losses in the event of potentially unfavorable low-probability, high-impact shocks. Enterprise wide stress tests are run on a quarterly basis to enable TBC to maintain a level of capital necessary to endure deteriorating economic conditions. Currency-induced credit risks are measured on a yearly basis using a specially-developed model. Other stress tests include stress tests for capital planning purposes (stress scenarios that TBC may withstand without breaching minimum capital ratios) and for interest rate risk and operational risk management purposes;

- Internal audit: A Basel-compliant risk-based audit approach has been introduced, and a risk-oriented long term audit plan has been developed addressing all TBC's activities. The plan is reviewed on a yearly basis; and

- Data management: A data management framework has been introduced to improve data quality.

RISK MANAGEMENT

Internal Capital Adequacy Assessment Process (ICAAP)

Following the adoption of Basel II/III requirements by the NBG, TBC calculates its capital requirements and risk-weighted assets separately under both Pillar 1 and Pillar 2 starting from 31 December 2012. The NBG sets forth detailed instructions of Pillar 1 calculations. For Pillar 2 purposes, TBC has adopted an Internal Capital Adequacy Assessment Process (ICAAP), whereby TBC Bank assesses all material risks that it faces and reserves capital for each. According to NBG guidelines, Pillar I requirements are in force from 30 June 2014, while the results of ICAAP under Pillar II requirements are due by 30 September 2014. TBC Bank submitted its ICAAP results to the NBG in March of 2013 and is currently awaiting NBG approval.

The key components of TBC's ICAAP process include risk identification; comprehensive assessment of risks and sound capital cover assessments, including risk appetite establishment and limiting system construction; aggregation; stress testing; validation; risk monitoring; reporting and ex post control; quality assurance and internal control review process; and capital planning. The table below summarizes the material risks TBC Bank faces and the approaches used to calculate capital charges for each identified risk.

Summary of Risks Considered per Basel Pillar I and II

Key areas	Pillar I	Pillar II
Credit Risk	Standardized Approach	Standardized Approach
Currency Induced Credit Risk (CICR)	NBG Assessment	Bank Assessment
Market Risk	Standardized Approach	Standardized Approach
Operational Risk	Basic Indicator Approach	Advanced Measurement Approach
Liquidity Risk	Not Required	Not Required
Interest Rate Risk in the Banking Book	—	Advanced Approach
Reputational Risk	—	Benchmarking
Strategic Risk	—	Benchmarking
Concentration Risk	—	Bank Assessment

Under ICAAP, TBC Bank's economic capital is calculated in order to cover all material risks other than liquidity risk (for which a liquidity contingency plan, rather than capital, is required).

TBC defines the relevant stress scenarios for all material risk types measured using advanced models to determine the separate effects of potentially extreme conditions on the value of corresponding risk sensitive exposures. Currently the Bank performs risk level stress tests for interest rate risk and operational risks.

In addition to risk level stress tests, TBC also performs enterprise wide stress tests (EWST) to confirm that existing capital is sufficient to withstand severe stress events. The stress parameters used in EWST are based on the most severe GDP decline that have occurred in Georgia and its peer countries and other variables, including exchange rates, unemployment, CPI levels and real estate price levels over the previous eight years. The results of EWST are expressed as the amount of capital needed (per risk type) in order to withstand the full potential losses resulting from the specified stress events.

TBC also uses stress testing for capital planning purposes. The purpose of such stress tests is to determine the minimum capital buffer required for TBC to withstand a moderate stress event without breaching minimum capital adequacy requirements.

TBC uses stress testing to provide Management with information relating to risk mitigation and economic capital management. This information is not used in isolation, but in combination with other risk management measures. The results are periodically reported to the Management Board and Risk, Ethics and Compliance Committee.

CREDIT RISK MANAGEMENT

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

The goal of TBC's risk management system is to maximize TBC's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. TBC's credit risk management includes: (I) establishing an appropriate credit risk environment, (II) operating under a sound credit-granting process and (III) maintaining efficient processes for credit risk measurement, control and monitoring.

Establishing an Appropriate Credit Risk Environment

The Supervisory Board and Management Board have critical roles in overseeing TBC's credit risk management functions. TBC's credit risk strategy (as part of its overall risk strategy) and credit policy are approved by the Supervisory Board and are reviewed on an annual basis or more frequently as required. TBC's credit risk strategy outlines key principles for credit risk management; sets risk tolerance levels for the definition and management of an acceptable level of credit risk, based on certain defined criteria; and outlines a detailed plan for credit risk management development in order to guarantee TBC's sustainable development. TBC's credit policy defines the types of credit exposures TBC is willing to grant, economic sectors and corresponding restrictions, portfolio segmentation, lending limits and credit underwriting guidelines, loan grading and provisioning principles and other significant areas that are necessary for ensuring efficient credit risk management.

In accordance with the principles set out in TBC's risk strategy and credit policy, corresponding policies and procedures are developed and implemented for identifying, measuring, monitoring and controlling credit risk. Policies include (but are not limited to): credit risk identification and assessment policy; a detailed and formalized credit evaluation/appraisal process, administration and documentation; credit approval authorities at various levels, including authority for approving exceptions, roles and responsibilities of units/staff involved in the origination and management of credit; guidelines on the management of problem loans; clear guidance for internal rating systems and provisioning; lending to TBC Bank's related and connected parties; and environmental risk management policy.

Operating under a Sound Credit-granting Process

TBC strives to ensure a sound credit-granting process by establishing well-defined credit granting criteria and building up an efficient process for the comprehensive assessment of a borrower's risk profile. TBC ensures that sufficient information is received about the borrower, its credit history, purpose of the credit and, where applicable, collateral. Different assessment processes are in place based on the type of credit exposure and borrower profile.

Credit decisions are based primarily on the borrower's repayment capacity, although TBC uses collateral such as real estate, movable assets, cash and guarantees to help limit credit risk. TBC has appropriate processes in place to control and monitor residual risks, including those designed to ensure that collateral agreements are legally enforceable. The collateral is subject to regular re-evaluation.

Different Loan Approval Committees are in place for the approval of credit exposures to retail, corporate, SME and micro customers. The composition of a Loan Approval Committee depends on the type of exposure, aggregated liabilities of the borrower and the borrower's risk profile. Credit risk managers (as members of corresponding Loan Approval Committees) ensure that borrower and proposed credit exposure risks are thoroughly analyzed. Loans to TBC's related and connected parties are approved by the Supervisory Board (although the Supervisory Board delegates approval authority to the Management Board for loans up to USD 100,000).

Maintaining Efficient Processes for Credit Risk Measurement, Control and Monitoring

In order to minimize credit risk, TBC continuously monitors its credit portfolio, both at the level of individual credit granted and on TBC's overall credit portfolio. TBC has a system in place to monitor credit portfolio quality on a daily basis, analyze trends and take remedial measures as and when any deterioration occurs. The system enables TBC to ascertain whether loans are being properly serviced, the adequacy of provisions, whether the overall risk profile is within limits established by the Management and general compliance with all credit regulatory limits under its Risk Appetite Statement.

On the individual borrower level, TBC regularly monitors the borrower's timely debt repayments and collateral values, as well as, for corporate and SME loans, the borrower's financial condition, use of funds and fulfillment of covenants. The corresponding policy provides procedural guidelines relating to credit risk monitoring, monitoring frequency, roles and responsibilities of individuals, periodic examination of collateral and loan covenants and the identification of any loan deterioration. TBC considers its internal rating models developed under Basel Implementation Project to be an important tool for credit risk management and monitoring purposes, both for individual credits and for overall portfolio. An effective management information system is in place in order to ensure timely flow of information to the corresponding credit risk management bodies.

Concentration management is a significant function of credit risk management. TBC limits the level of credit risk it undertakes by placing limits on concentrations of: (I) single borrowers and groups of related borrowers; (II) large borrowers (classified as those with exposure to more than 5% of TBC Bank's regulatory capital); (III) related and affiliated parties of TBC Bank (IV) single borrowers with unsecured liability and total unsecured loans; and (V) single industry and groups of "higher-risk" industries (such as development, construction and real estates). These limits reflect those set by the NBG and IFI Investors, as well as internally-set limits. TBC Bank undertakes various stress tests in order to assess credit exposures under stressful conditions. TBC also performs annual currency-induced credit risk assessments. TBC Bank's foreign currency-denominated credit portfolio is stress tested for currency devaluations, estimating potential losses suffered by a foreign currency-denominated credit portfolio compared to a Lari-denominated credit portfolio. The Management considers the results of these stress tests when calculating economic capital and assessing capital adequacy.

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. TBC 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.

FUNDING AND LIQUIDITY RISK MANAGEMENT

The 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 TBC'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) recognize any structural mismatch existing within TBC'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 TBC's risk profile.

Liquidity risk is categorized 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 uses a liquidity coverage ratio and a net stable funding ratio (as set forth under Basel III), NBG minimum liquidity ratios, as well as stress tests and "what-if" scenario analyses.

A liquidity coverage ratio (calculated by reference to the sum of qualified liquid assets and 30-day cash inflows divided by 30-day cash outflows) is used to help manage short-term liquidity risks. TBC'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 also stress tests the results of liquidity through large shock scenarios set by the NBG. TBC calculates its internal liquidity coverage ratio and conducts stress tests on a weekly basis. TBC Bank's liquidity coverage ratios were 344%, 305% and 313% for the years ended 31 December 2013, 2012 and 2011, respectively.

A 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 also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio.

We believe that a 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 the strategy and sets the gross loan to deposit ratio limits. TBC's gross loan to deposit ratio (defined as total value of gross loans divided by total value of deposits) was 102.5%, 102% and 108.4% as at 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 follows Basel III guidelines on high-quality liquidity asset eligibility to ensure that TBC'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 has a liquidity contingency plan, updated annually, which forms part of 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.

Maturity Analysis

TBC's principal sources of liquidity include deposits and customer accounts; borrowings from local and international banks and financial institutions; subordinated loans from the IFI Investors; inter-bank term deposits and short-term loans; proceeds from sales of investment securities; principal repayments on loans; interest income; and fee and commission income.

We believe that TBC has sufficient liquidity to meet its current on- and off-balance sheet obligations. For further information on management of liquidity risk, please refer to Note 35 to the Audited Consolidated Financial Statements.

RISK MANAGEMENT

Market Risk

TBC 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. These risks are principally (a) risks pertaining to interest rate related instruments and equities in the "trading book" (financial instruments or commodities held for trading purposes); and (b) foreign exchange risk and commodities risk throughout TBC. TBC's strategy is not to be involved in trading financial instruments or investments in commodities. Accordingly, TBC's only exposure to market risk is foreign exchange risk in its "structural book," comprising its regular commercial banking activities having no trading, arbitrage or speculative intent.

Foreign Exchange Risk

TBC is exposed to currency risk that 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 TBC Bank to monitor both balance-sheet and total aggregate balance (including off-balance sheet) open currency positions and to maintain such positions within 20% of TBC Bank's regulatory capital. For the year ended 31 December 2013, TBC Bank maintained a balance open currency position of 0.6% of regulatory capital and an aggregate balance open currency position of 0.8%.

In addition, the Supervisory Board sets further limits on open currency positions. The ALCO has set limits on the level of exposure by currency and in total for both overnight and intra-day positions which are more conservative than those set by the NBG and the Supervisory Board. TBC Bank's compliance with these limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments and reported periodically to the Management Board, the Supervisory Board and the Risk, Ethics and Compliance Committee.

Open currency positions are used to assess TBC Bank's minimum capital requirements under the ICAAP framework on a monthly basis. In addition, the Financial Risk Management Department performs stress testing on a monthly basis.

Interest Rate Risk Management

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of TBC's financial assets and liabilities. This risk can arise from maturity mismatches of assets and liabilities, as well as from the repricing characteristics of such assets and liabilities. Most of the loans and deposits offered by TBC are at fixed interest rates, while a portion of TBC's borrowings is based on a floating rate of interest. TBC's floating rate borrowings are, to a certain extent, hedged as a result of the NBG paying a floating rate of interest on the minimum reserves that TBC holds with the NBG. TBC Bank has also entered into interest rate swap agreements in order to mitigate interest rate risk. Furthermore, many of TBC's loans to and deposits from customers contain a clause allowing TBC to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting TBC's exposure to interest rate risk. Management also believes that TBC's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movement.

TBC Bank employs an advanced framework for the management of interest rate risk. In order to manage interest rate risk TBC Bank establishes appropriate limits, monitors compliance with the limits and prepares forecasts. Interest rate risk is managed by the Financial Risk Management Department and is monitored by the ALCO. The ALCO decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The ALCO reports periodically to the Management Board, the Supervisory Board and the Risk, Ethics and Compliance Committee.

TBC Bank measures four types of interest rate risk based on the source of the risk: (I) repricing risk, (II) yield curve risk, (III) basis risk and (IV) optionality (embedded option risk).

TBC Bank considers a number of stress scenarios, including different yield curve shift scenarios and behavioral adjustments to cash flows (such as deposit withdrawals or loan prepayments), to calculate the impact on one-year profitability and enterprise value. Appropriate limits are set by the Supervisory Board and by the ALCO.

Under the ICAAP framework, TBC Bank reserves capital in the amount of the adverse effect of possible yield curve shift scenarios on net interest income over a one-year period for Basel II Pillar 2 capital calculation purposes. As at 31 December 2013 the impact of the downward parallel shift of a yield curve of (3.59)% in GEL and an upward parallel shift of 2.31% in USD on net interest income over a one-year period was equivalent to GEL 15 million. In addition, TBC has developed stress tests in accordance with Basel II requirements to ensure that TBC Bank can withstand severe but probable stress scenarios.

OPERATIONAL RISK MANAGEMENT

TBC is exposed to operational risk, which is the risk of loss resulting from an inadequacy or failure of internal processes, people or systems or from external events. This definition includes legal risk, but excludes strategic and reputational risks.

In order to oversee and mitigate operational risk, TBC has established an operational risk management framework. The main components of this framework are the identification, assessment, measurement and reporting of operational risk, including information technology risk. TBC uses various tools and techniques to mitigate operational risk, including internal loss data, structured self-assessment systems, scenario and root cause analyses, risk mapping and risk indicators. The Management Board ensures the existence of a strong internal control culture in which control activities are an integral part of TBC's regular activities.

In connection with the Basel II/III Implementation Project, TBC reviewed and enhanced its operational risk management system according to Basel II requirements. This included the development of an Internal Advance Measurement (AMA) model to calculate capital for operational risk for purposes of economic capital assessment.

TBC has implemented various policies, processes and procedures (including as part of the Basel II/III Implementation Project) to control and mitigate material operational risks. These include:

- Implementation of new technologies, increased levels of automation and the use of insurance policies to minimize and externalize risks relating to "low frequency, high severity" events;
- Entry into external service-level agreements to minimize risks from inadequate outsourcing arrangements;
- Establishment of business continuity plans to ensure TBC's ability to operate on an ongoing basis and limit losses in the event of a severe business disruption;
- Implementation of procedures to analyze system flaws and take corrective measures to prevent the re-occurrence of significant losses;
- Involvement of the Operational Risk Department in the approval process of new products and services to minimize risks relating thereto; and
- Development of a special Operational Risk Awareness program for TBC Bank employees and provision of regular training to further strengthen TBC's internal risk culture.

The Management Board and the Supervisory Board together set TBC's operational risk appetite policy and the Operational Risks Committee oversees compliance with the limits set therein. The Operational Risks Committee discusses TBC's operational risk profile and risk minimization recommendations on a regular basis.

The Operational Risk Department is responsible for the implementation of the operational risk management framework and reports to the Chief Risk Officer. The Operational Risk Department is also responsible for receiving IT incident reports, monitoring IT incident occurrences and overseeing activities targeted at solving identified problems. External consultants perform regular assessments of information security risks, which are managed according to international standards.

To minimize information security risk TBC has invested in data loss prevention and Security Information and Event Management (SIEM) systems. The data loss prevention system is designed to detect potential data breaches and prevent sensitive data from loss and misuse. SIEM technology provides real-time analysis of security alerts generated by network hardware and applications.

RISK MANAGEMENT

In 2013, an internal control function was established within the Operational Risk Management Department. The main goal of the internal control process is to detect systematic errors in banking operations, ensure far-reaching improvement and development through proposals and added value in process advancements. The main functions of this process include: development of a control system to address risks that could prevent achieving established goals; use of qualitative and quantitative methods to identify risk and determine relative risk rankings; coordination of establishment and maintenance control activities such as reconciliations, approvals, and review of operating activities; and monitoring and reporting results to the Management Board to enable it to understand the internal control system and focus on the material and strategic implications for TBC's business.

In addition, TBC manages Compliance and AML Risk, Reputational Risk, Strategic Risk and other relevant risks. For more information regarding these risks, please refer to TBC Bank IR website and relevant documents within.

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

TBC Bank has one of the best-developed Corporate Social Responsibility strategies in the country. We firmly believe that it is our responsibility to support the community, the environment and our wider stakeholders among which we operate. Our outstanding CSR track record was recognized by the EMEA Finance Magazine with the "Best Corporate Social Responsibility in Central and Eastern Europe and CIS 2013" award.

The Bank's CSR Strategy covers four main areas:

Community

TBC Bank ensures that its CSR commitments reflect the needs and requirements of our community. Our current projects include charitable causes and individual cases (such as First Step Georgia, working with children with disabilities), developing modern culture and arts (including the literary award SABA and the Jazz series), and protecting cultural heritage (including numerous restoration projects undertaken by the Bank).

TBC Bank Community CSR Projects:

SABA Literary Award
SABA Electronic Bookstore
Artarea TV
TBC Art Gallery
TBC Gallery
Different social projects
JAZZ series and other musical projects
Photo competition Kolga
Projects for tourism and youth sports promotion

Workplace

TBC Bank is dedicated to creating the best workplace experience for its employees. We offer employees the largest benefits package in the country, as well as advanced professional education and training opportunities. Projects implemented for TBC Bank employees include:

- TBC Fund for Employees with Large Families (founded in 2013);
- TBC Academy provides training and workshops in different areas of business and banking free of charge for TBC Bank employees (founded in 2011);
- Financial aid of up to GEL 40,000 toward tuition at Top 100 Business Schools for TBC Bank employees;
- Full social benefits package, including health insurance, pension schemes, and lengthy, fully-paid maternity and paternity leave.

Marketplace

TBC Bank has a traditional commitment to supporting small and medium size businesses. We have a track record for attracting dedicated facilities for SME financing – including local currency and sector-specific funds for high-priority industries in the country (such as agriculture, healthcare and energy).

Additionally, TBC Bank is the first bank in the region to offer free educational services to its SME clients through the TBC Bank Business Support Program launched in 2013 with support from IFC and ADB and in partnership with IBM, Ernst & Young and BDO.

Environment

TBC Bank has one of the most advanced Environmental and Social Risk Management systems in the region. Our ESMS Policy is aligned with the requirements of all international best practices. The system has been developed in cooperation with EBRD, IFC, DEG, ADB, and FMO and includes provisions that are often much stricter than national requirements. The Bank also ensures that its clients and sub-contractors comply with international social and environmental standards.

2013 CSR Highlights

TBC Bank's major CSR projects presented below are divided into four strategic areas covered by the Bank.

COMMUNITY

The Bank's 2013 budget for community projects totaled GEL 800,000. Major projects included the first television channel dedicated fully to culture, SABA literary award, TBC Status Jazz series, and various social projects. Among these are:

Literary Award SABA

The award program is one of the most respected and anticipated literary events in the country. TBC Bank founded the program in 2002 with 2013 marking its 11th anniversary. We established the SABA Literary Awards because of the apparent lack of development of the local literary world at the time. The Georgian public had very limited information, if any, about new works created and published. Until now the Bank has recognized more than 100 authors of different narrative genres. SABA award recipients receive cash and non-cash prizes, with a total of GEL 325,000 awarded by 2013.

SABA Electronic Bookstore

In 2012, the SABA brand was extended to the market through the first online bookstore that offers downloadable versions of SABA award-winning works, classic series from both Georgian and international authors, books on business and management, children's titles and others. About 300 books were uploaded to the SABA online bookstore at the time of its launch.

In 2013, we launched the first local e-book application "SABA Offline Reader" that is compatible with Windows and Mac operating systems. It is now possible to find about 5000 books on the virtual shelves of SABA due to TBC's support of this innovative project. The SABA online book store is especially important as it promotes Georgian literature beyond the country's borders, and allows new authors to be discovered and appreciated. Dozens of established and up-and-coming writers have already created their own electronic books and sold them using our innovative e-book platform. The book store can be found at www.saba.com.ge.

Artarea

TBC Bank continued to develop its online art-television Artarea TV, which was founded in 2012, throughout 2013. This is the first television channel that allows Georgian viewers to keep up to date with current events in culture, music and arts.

Artarea has been in operation for more than eighteen months and is already being broadcast via cable. The project brings together Georgian writers, musicians, painters and journalists, as well as other people interested in culture, with their own blogs and video blogs. In 2013 the project expanded its activity to cover digital artists, and provided facilities where students interested in arts can attend various master classes and meet artists and authors.

In order to encourage more active knowledge-sharing, TBC Bank founded an art café, ARTISHOK, in 2013. The café has since turned into a hub for artists to meet and generate ideas.

TBC Galleries

TBC Bank has dedicated two new art spaces – TBC Gallery and TBC Art Gallery – to different events and exhibitions, often created and/or showcased exclusively for the Bank. One such exhibition was featured at Sotheby's – the first time Georgian art received international exposure and recognition of this scale. Sotheby's will be featuring more

CORPORATE SOCIAL RESPONSIBILITY

Georgian artists in its upcoming exhibition Crossroads from Istanbul to Kabul, again with support from TBC Bank.

During 2013, the Art Gallery hosted three well-known painters and sculptors. Overall, TBC Gallery hosted 50 events in 2013, including exclusive concerts, book presentations, photo exhibitions and other art projects.

Promotion of Georgian Artists Abroad

In 2013, TBC Bank's project Touch Georgia, which is organized by TBC Art Gallery, held the first presentation of Georgian art and culture to the German public and foreign partners in Cologne, Germany. The presentation was held in the exhibition space of the German Investment and Development Company (DEG), which is one of the shareholders of the Bank. The Exhibition featured traditional Georgian art forms and cuisine: modern paintings, cloisonné enamel, folk music, national costumes, Georgian wine from Chateau Mukhrani and Georgian Cheese produced by the Phoka Monastery, also supported by the Bank. The exhibition in Germany will be followed by the presentation of German Culture at TBC Art Gallery in Tbilisi, organized by DEG.

Social Projects

TBC Bank actively supports multiple social causes. The highlights of TBC's support in 2013 are presented below:

Financial Support to Psychological Support Center Green House

With this project, TBC Bank provides therapeutic and psychological support to children with limited abilities free of charge. Green House is a Georgian equivalent of the French Green House, which provides medical treatment based on the method of French psychoanalyst Francoise Dolto. The center treats up to 150 children every day.

Financial Support to First Step Georgia

First Step Georgia is one of the biggest psychological aid centres in Georgia. TBC Bank provides annual financial support to the organization enabling First Step to provide up to ten unique services to children with disabilities, most of which are in need of urgent psychological and therapeutic treatment. The organization also runs a Day Centre that provides uninterrupted treatment for children suffering from particularly serious conditions. An out-patient program is also available.

Financial Support to Internally Displaced Persons

TBC Bank was the founder and the largest contributor to the charity foundation TBC Fund, created in order to support the country's refugee population. The Bank donated GEL 5 million during the first year to the Fund's operations and actively encouraged other corporations to participate. The Fund has since built a new school in an IDP village and continues to finance several social, educational, sports, health, arts and cultural projects for the refugee population.

Tourism and Sports

Infrastructure Improvements in Tusheti

TBC Bank financed road-works in the remote mountainous region of Tusheti during 2013. As part of a two-year project, the Bank also aims to implement infrastructural works in the Tusheti Preserved Territories in 2014. The works include rehabilitation of the equestrian road and the construction of a tourist shelter.

Equestrian Competition in Mukhrani

TBC Bank organized and financed the first equestrian competition at Chateau Mukhrani for children aged 7-14 in show jumping. The Bank plans to maintain the tradition of supporting sports among young people with this and similar initiatives throughout the coming years.

Jazz Series

TBC Bank is a prominent supporter of two of the longest-standing musical events in Georgia: the Tbilisi and Black Sea Jazz Festivals, which are in their 16th and 7th years, respectively, in 2013. We also support the year-long Jazz Series with numerous annual events. TBC Bank also frequently organizes exclusive events for its "Status Clients" and general audiences. More information about the Jazz series can be found at the Festival website www.tbilisijazz.com

Other Musical Projects

- In 2013, TBC Bank supported the "Evgeny Mikeladze First National Competition Among Young Orchestral Musicians". The competition aimed to promote wind instruments and support the development of this musical skill in Georgia. The competition was open nation-wide and recruited 100 young musicians in its inaugural year;

- TBC Bank financed the first solo album of Davit Aladashvili, a Georgian student at the Julliard School master program in New York City. The premiere of the album was also held in New York;

- In 2013, TBC Bank provided tuition support for a talented young vocalist Beka Goginashvili at the Ozimo Art Academy of Opera in Italy.

Kolga Photography Competition for Young Artists

TBC Bank is the traditional financial partner of Georgia's largest and most prestigious photo competition Kolga. The purpose of this competition is to discover and promote young photographers and their work. In 2013, Kolga Tbilisi Photo celebrated its 10th anniversary.

WORKPLACE

As one of the most important aspects of its CSR strategy, TBC Bank takes special care to provide workplace conditions of the highest standard for its employees. Key initiatives of 2013 are highlighted below.

TBC Club for Employees with Large Families

TBC Bank established a club for Bank employees who have more than two children. Underlying this initiative is the highest value we place on the importance of children and strong families for our company, our community, and for the country as a whole. The Club supports families through special promotions, events and functions. Founded in 2013, it already unites 200 TBC Bank employees. A special, one-time gift of GEL 10,000 is provided to all TBC Bank employees who have their fourth and next child. One such gift was awarded in 2013.

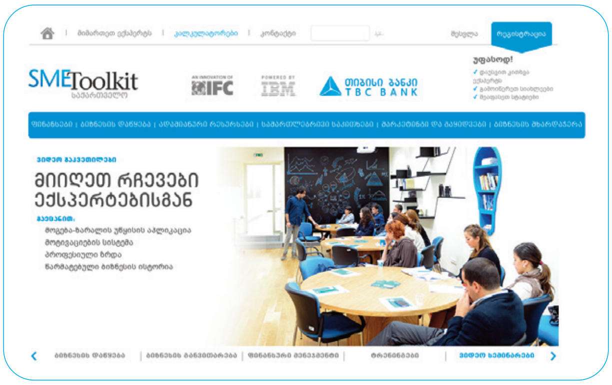
TBC Academy

TBC Academy is an HR initiative that aims to improve general understanding and knowledge of TBC Bank employees in the field of banking. We believe that TBC Bank's highly-professional workforce is a competitive edge for our company. Thus, we take special care to provide exclusive access to leading industry professionals from within the Bank to all of our employees, who are able to develop their skills in banking finance, time management, banking operations and other areas.

MARKETPLACE

TBC Educational Platform for SMEs

The Business Support Program (see details on page 88) launched one of the year's most important projects – the first Educational Platform for SMEs in the region. In addition to supporting the Bank's SME customers, the project serves a wider purpose of educating the Georgian business community and creating opportunities for their growth and development.

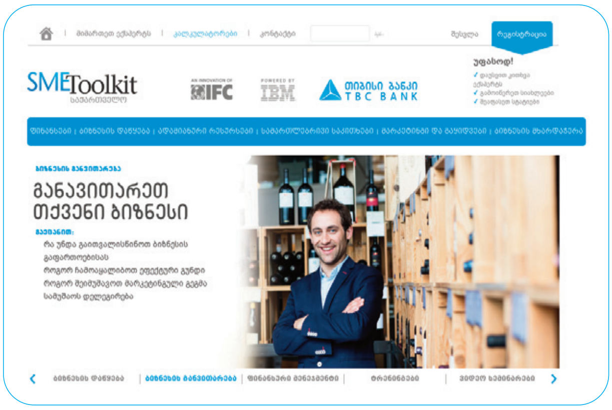


www.tbcbusiness.ge is the first educational web portal of its kind in Georgia and in the wider region that is tailor-made for SMEs. The web portal provides free-of-charge tools and services to its visitors on the basics of launching, managing or developing your own business. The unique feature of the website is that it is equally useful for both new and experienced businessmen. The website offers tools, articles and useful templates on marketing and human resource management, financial reporting and

CORPORATE SOCIAL RESPONSIBILITY

accounting, business planning etc. The Platform also offers business tutorials and free Q&A sessions with leading experts and consulting firms in the world, such as E&Y, BDO, and PwC.

www.tbcbusiness.ge is just a few months old and the video tutorials have already been viewed by thousands of people. For example, one of the popular videos – "Children Make Better Managers" by David Gogichaishvili, General Manger of the Night Show Studio and Lecturer – has been viewed by nearly 50,000 visitors. The website was created through the joint efforts of TBC Bank and the IFC, World Bank Group, and in partnership with IBM.



TBC Bank Business Support Program

Our Business Support Program 7 Steps to Success offers unprecedented educational and business development services to the Bank's SME clients free of charge.

Services currently available to our customers include:

- *Free training sessions* financed by ADB cover important topics, such as Budgeting, CVP Analysis, Social Media Marketing, HR, and Strategic Management. By the end of 2013, 1,063 clients had taken part in these trainings;
- *Upgraded Internet Bank* for legal entities;
- *Completely new Mobile Bank* for legal entities;
- *First educational web portal* in the region www.tbcbusiness.ge (financed by IFC and in partnership with IBM). Here, businesses can find readily available, Georgian-language resources that include tools for financial accounting, direct selling, and human resource management. The portal also offers pre-set materials, such as agreement forms, template accounting forms, and a Q&A blog;
- *Upgraded SMS Banking* services for legal entities;
- *Free business consultation* services for SMEs

In 2014, the TBC Business Support Program will launch the following additional services:

- *Business conferences* for SMEs.

ENVIRONMENT

Leading ESMS Policy

TBC Bank was one of the first banks in the country to develop an Environmental and Social Management System (ESMS). Our International Financial Institution (IFI) shareholders – DEG, IFC, EBRD, and FMO – provided expertise and guidance throughout the process to ensure that the Bank implements the most advanced and comprehensive system based on the highest standards of international best practice.

The ESMS Policy focuses on the environmental and social issues associated with commercial lending and investments. The main provisions of the ESMS policy are as follows:

- Environmental and social (E&S) risks associated with the Bank's operations, relying on tools like EBRD's Environmental and Social Risk Management Manual, IFC's web-based ES toolkit, FMOs Sectoral Guidelines for Environmental and Social Risk Assessment, IFC's Sustainability Framework and Performance Standards and Guidance Notes, UNEP-FI's Guide to Banking and Sustainability, and ADB's ESMS Template for Banks and Funds;
- Protection of human and labor rights, especially those of vulnerable population groups, including children and indigenous peoples.

TBC Bank regularly updates the ESMS document together with its shareholder and partner IFIs. The latest update to the policy was approved by the Supervisory Board and signed by our CEO in December 2012. Our commitment to regularly reviewing and upgrading our ESMS policy ensures that the Bank effectively manages environmental and social risks associated with its operations in order to minimize its impact on the environment and its stakeholders.

Full details of the TBC Bank ESMS policy are available on the Bank's Investor Relations ir.tbcbank.ge

EBRD Caucasus Energy Efficiency Program (CEEP)

TBC Bank was also the first and one of the most successful participants of the Caucasus Energy Efficiency Program (CEEP), developed by EBRD. We have raised a total of USD 20 million under the CEEP program, with the first agreement for USD 10 million concluded in 2007. We signed the second USD 10 million agreement in 2012, with all program components implemented in 2013. This latest five year facility is dedicated to financing renewable energy and energy efficiency projects of corporate and SME customers – a sector in which the Bank has a particular interest and an especially successful track record. To date, the Bank has financed energy efficiency and renewable energy projects both in corporate and retail segments in aggregate volume of approximately USD 35 million, of which approximately USD 20 million was disbursed under the CEEP program.

CONSOLIDATED FINANCIAL STATEMENTS

TBC Bank Group
Consolidated Financial Statements
31 December 2013

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Notes to the Consolidated Financial Statements

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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

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TBC Bank Group
Consolidated Statement of Financial Position

In thousands of GEL	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

The notes set out on pages 98 to 184 form an integral part of these consolidated financial statements.

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

In thousands of GEL	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:				
Items that may be reclassified subsequently to profit or loss				
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)
Items that will not be reclassified to profit or loss:				
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

The notes set out on pages 98 to 184 form an integral part of these consolidated financial statements.

TBC Bank Group
Consolidated Statement of Changes in Equity

		Net assets Attributable to owners							
In thousands of GEL	**Note**	**Share capital**	**Share premium**	**Share based payments reserve**	**Other reserves (note 29)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
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**

The notes set out on pages 98 to 184 form an integral part of these consolidated financial statements.

TBC Bank Group
Consolidated Statement of Cash Flows

In thousands of GEL	Notes	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**

The notes set out on pages 98 to 184 form an integral part of these consolidated financial statements.

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:

	% of ownership interest held as at 31 December		
Shareholders	**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:

	Ownership / voting % as of 31 December					
Subsidiary	**2013**	**2012**	**2011**	**Country**	**Year of incorporation or acquisition**	**Industry**
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)

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

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

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

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

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

Premises and equipment. Premises and equipment, except for 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	
	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)	-	
	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)	
	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)

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

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

In thousands of GEL	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:

In thousands of GEL	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:

In thousands of GEL	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

In thousands of GEL	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:

In thousands of GEL	Corporate 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:

In thousands of GEL	Corporate 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:

In thousands of GEL	Corporate 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:

	2013		2012		2011	
In thousands of GEL	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:

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

9 Loans and Advances to Customers (Continued)

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

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

9 Loans and Advances to Customers (Continued)

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

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
- Borrowers with credit history over two years	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**
Past due but not impaired							
- 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**
Individually assessed impaired loans (gross)							
- 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**
Collectively assessed impaired loans (gross)							
- 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:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral of	Carrying value 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:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral of	Carrying value 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:

In thousands of GEL	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral of	Carrying value 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

In thousands of GEL	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:

In thousands of GEL	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

In thousands of GEL	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:

In thousands of GEL	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

In thousands of GEL	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:

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

12 Other Financial Assets (Continued)

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

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

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

In thousands of GEL	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:

In thousands of GEL	2013	2012	2011
Neither past due nor impairment			
- 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**
Past due but not impaired			
- Receivables on guarantees			
- more than 90 days overdue	10,780	9,806	-
Total past due but not impaired	**10,780**	**9,806**	**-**
Receivables individually determined to be impaired (gross)			
- 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:

In thousands of GEL	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:

In thousands of GEL	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:

In thousands of GEL	31 December 2013	31 December 2012	31 December 2011
Neither past due nor impaired			
- 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**
Past due but not impaired			
- 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**
Individually impaired			
- 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:

In thousands of GEL	Over-collateralised assets: Carrying value of the assets	Over-collateralised assets: Fair value of collateral	Under-collateralised assets: Carrying value of the assets	Under-collateralised 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:

In thousands of GEL	Over-collateralised assets: Carrying value of the assets	Over-collateralised assets: Fair value of collateral	Under-collateralised assets: Carrying value of the assets	Under-collateralised 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:

In thousands of GEL	Over-collateralised assets: Carrying value of the assets	Over-collateralised assets: Fair value of collateral	Under-collateralised assets: Carrying value of the assets	Under-collateralised 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

In thousands of GEL	**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

In thousands of GEL	Note	Premises and leasehold improve-ments	Office and computer equipment	Cons-truction in progress	Total premises and equipment	Computer software licences	Total
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

In thousands of GEL	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:

In thousands of GEL	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 Gooodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In thousands of GEL	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:

In thousands of GEL	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 Gooodwill (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

In thousands of GEL	**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

In thousands of GEL	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:

	2013		2012		2011	
In thousands of GEL	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:

In thousands of GEL	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:

In thousands of GEL	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:

In thousands of GEL	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:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
International Financial Corporation	23-Apr-09	12-Nov-18	18,558	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:

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

24 Subordinated Debt (Continued)

At 31 December 2011, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	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

In thousands of GEL except for number of shares	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 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:

In GEL except for number of shares	**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 resreve 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.

In thousands of GEL except for number of shares	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:

In thousands of GEL except for number of shares	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:

In thousands of GEL	**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)

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

In thousands of GEL	Retail	Corporate	SME	Micro	Total
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:

In thousands of GEL	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**
Non-segmental interest income	40,828	42,296	36,709
Non-segmental interest expense	(52,233)	(61,261)	(45,747)
Non-segmental net fee and commission expense	(277)	(3,793)	(3,370)
Non-segmental gains less losses / (losses less gains) from trading in foreign currency	6,001	(6,315)	-
Non-segmental provision for liabilities and charges	(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:

In thousands of GEL	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:

In thousands of GEL	**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:

In thousands of GEL	**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:

In thousands of GEL	**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)

In thousands of GEL	Retail	Corporate	SME	Micro	Corporate center and other operations	Total
31 December 2013						
- Interest income	207,028	131,385	44,370	51,185	40,828	**474,796**
- interest expense	(96,144)	(35,721)	(7,622)	(426)	(52,233)	**(192,146)**
- Inter-segment interest income/(expense)	24,157	(50,675)	(3,679)	(15,045)	45,242	**-**
- Net interest income	**135,041**	**44,989**	**33,069**	**35,714**	**33,837**	**282,650**
- Fee and commission income	40,823	15,881	7,349	2,444	-	**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

In thousands of GEL	Note	Revaluation reserve for Premises	Revaluation reserve for Available for sale securities	Cumulative currency translation reserve	Total other reserves
At 1 January 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

In thousands of GEL	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

In thousands of GEL	2013	2012	2011
Fee and commission income			
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
- 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			
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
- 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

In thousands of GEL	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

In thousands of GEL	**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:

In thousands of GEL	**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.

In thousands of GEL	**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:

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

In thousands of GEL	**31 December 2011**	**(Charged)/ credited to profit or loss**	**Charged directly to other comprehensive income**	**31 December 2013**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(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)

In thousands of GEL	31 December 2011	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2013
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(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:

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

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:

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

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:

In thousands of GEL	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			
In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Deri-vatives	Net balance sheet position
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			
In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Deri-vatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Deri-vatives	Net balance sheet position
Georgian Lari	1,088,821	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:

In thousands of GEL	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.

In thousands of GEL	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%**
In thousands of GEL	**Factor**	**Amount**	
Available stable funding		**3,410,696**	**2,952,368**
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		**2,874,587**	**2,427,415**
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.

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

35 Financial and Other Risk Management (Continued)

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

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

The maturity analysis of financial liabilities at 31 December 2011 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	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:

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

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:

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

35 Financial and Other Risk Management (Continued)

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

In thousands of GEL	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 in concentrated in Georgia. Emerging economies, such as the Georgian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has changed number of civil, criminal, tax, administrative and commercial laws that have positively affected the overall investment climate of the country. Georgia has an international reputation as a country with a favorable investment environment. For example, in the "Doing Business 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:

In thousands of GEL	**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
Repossessed Assets	69,143	69,143
Fixed Assets and intangible assets	202,902	184,705
Other assets	143,487	92,255
Total	**4,299,089**	**4,334,151**
Total Off-balance	**615,670**	**327,928**
minus general and special reserves	(166,377)	(166,377)
Total Amount	**4,748,382**	**4,495,702**

In thousands of GEL *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
Repossessed Assets	28,010	28,010
Fixed Assets and intangible assets	198,550	184,502
Other assets	152,965	93,105
Total	**3,870,280**	**3,920,379**
Total Off-balance	**555,768**	**342,916**
minus general and special reserves	(137,411)	(137,411)
Total Amount	**4,288,637**	**4,125,884**

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
Repossessed 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:

In thousands of GEL	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:

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

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

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:

In thousands of GEL	**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:

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

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	**2013** RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,188,156	38,613
Gross loans and accrued interests	2,958,581	2,419,822
Repossessed assets	49,920	49,920
Fixed assets and intangible assets	225,885	223,159
Other assets	185,402	185,403
Total	**4,607,944**	**2,916,917**
Total Off-balance	**656,386**	**315,312**
Less: Loan loss provision minus General Reserve	(116,466)	(116,466)
Market Risk	**19,779**	**19,779**
Total Amount	**5,167,643**	**3,135,542**

In thousands of GEL *Risk weighted Exposures*	**2012** Carrying Value	**2012** 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
Repossessed 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**
Less: Loan loss provision minus General Reserve	(130,350)	(130,350)
Market Risk	**25,977**	**25,977**
Total Amount	**4,584,609**	**2,787,393**

In thousands of GEL *Risk weighted Exposures*	**2011** Carrying Value	**2011** 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
Repossessed 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**
Less: Loan loss provision minus General Reserve	(126,832)	(126,832)
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:

In thousands of GEL	**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:

In thousands of GEL	**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:

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

In thousands of GEL	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:

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

In thousands of GEL	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:

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

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total compre-hensive income	Cash flows
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	
In thousands of GEL	(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	Cash collateral received	
In thousands of GEL	(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	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:

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

In thousands of GEL	**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**	
In thousands of GEL	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards and gross settled currency swaps: fair values, at the balance sheet date, of						
- USD payable on settlement (-)	-	(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:

	31 December 2013				31 December 2012				31 December 2011			
In thousands of GEL	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE												
FINANCIAL ASSETS												
Investment securities available for sale												
- 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).

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41 Fair Value Disclosures (Continued)

(a) Recurring fair value measurements

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

	Fair value at 31 December				
In thousands of GEL	**2013**	**2012**	**2011**	**Valuation technique**	**Inputs used**
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:

	31 December 2013				31 December 2012				31 December 2011			
In thousands of GEL	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
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:

In thousands of GEL	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:

In thousands of GEL	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:

In thousands of GEL	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:

In thousands of GEL	**Note**	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)		9,928	1,312
Impairment provisions for loans and advances to customers		152	15
Derivative financial liability	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:

In thousands of GEL	**Note**	**Significant shareholders**	**Key management personnel**
Interest income		1,527	159
Interest expense		14,596	352
Gains less losses from trading in foreign currencies		67	9
Foreign exchange translation 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:

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

43 Related Party Transactions (Continued)

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

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)		13,137	1,571	15,358
Impairment provisions for loans and advances to customers		250	19	318
Derivative financial liability	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:

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Interest income		1,757	261	1,644
Interest expense		16,805	386	565
Provision for loan impairment		-	-	26
Gains less losses from trading in foreign currencies		8	4	392
Foreign exchange translation 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:

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

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

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

43 Related Party Transactions (Continued)

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

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)		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:

In thousands of GEL	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:

In thousands of GEL	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:

In thousands of GEL	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:

	2013		2012		2011	
In thousands of GEL	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**

ADDITIONAL INFORMATION

ADDITIONAL INFORMATION

SHAREHOLDERS' MEETINGS

According to the Charter, regular General Meetings of Shareholders must be convened annually not later than three months from the day of preparation of the annual balance sheet. Extraordinary General Meetings of Shareholders must be convened within 20 days from submission of the written request of the Management Board, Supervisory Board or shareholders holding at least 5% of the Shares of TBC Bank. Shareholders may request the convening of a General Meeting of Shareholders only if at least one month has elapsed since the date of the prior General Meeting of Shareholders. If shareholder(s) holding at least 5% of the Shares request that an Extraordinary General Meeting of Shareholders is convened and the only item on the agenda is the dismissal of Management Board member(s), the Supervisory Board must call the meeting within 20 days, otherwise the shareholders themselves may convene the meeting.

The time, place and the agenda of the General Meeting of Shareholders shall be published in printed media at least 20 days prior to the date of such General Meeting of Shareholders. Shareholders holding at least 1% of the Shares should also be notified about the General Meeting of Shareholders via registered mail. The Supervisory Board shall set a reporting date which cannot be earlier than 45 days before the scheduled General Meeting of Shareholders. Only those shareholders who were shareholders of record as of the reporting date set by the Supervisory Board may participate in the General Meeting of Shareholders.

Any shareholder holding an ordinary share may attend and vote at the meeting personally or through proxy and the quorum of the General Meeting of Shareholders is satisfied if the holders of more than 50% of all votes are present or represented at the General Meeting of Shareholders. If the General Meeting of Shareholders is not quorate, the Supervisory Board must convene a new General Meeting of Shareholders with the same agenda, which will be quorate if the holders of more than 25% of all votes are present or represented. If the General Meeting of Shareholders convened for the second time is not quorate, the Supervisory Board must convene a further General Meeting of Shareholders with the same agenda, which will be quorate irrespective of the number of shareholders present or represented at the General Meeting of Shareholders.

General Meetings of Shareholders are presided over by the chairman of the Supervisory Board or, in his absence, by the deputy chairman of the Supervisory Board. In the event that the latter is also absent, the meeting is presided over by one of the other directors.

DIVIDEND POLICY

On 8 April 2009 the Management Board adopted, and the Supervisory Board approved, the Capital Management and Dividend Planning Policy of TBC Bank in order to ensure current capital adequacy, to plan for future capital needs and project efficient dividend payouts. The general objective of the Dividend Policy is to manage the capital position with regular dividend payouts in the amount that will not only ensure compliance with internal regulations but also ensure capital adequacy for TBC's future expansion.

The GMS held on 4 July 2013 approved a distribution in the amount of GEL 17,869,281 to the shareholders (equivalent to 20% of TBC Bank's net profit), which was paid on 5 July 2013. On 4 March 2014, the GMS approved a distribution in the amount of GEL 26,492,294 to the shareholders (equivalent to 25% of TBC Bank's net profit), which was paid on 4 March 2014. On 26 February 2014, the Supervisory Board approved a resolution, beginning in 2015, to annually distribute 25% of TBC's consolidated net income for the previous year as a dividend to shareholders, provided that the financial standing of TBC Bank allows such distribution.

TBC's dividend strategy is based on two major priorities: (I) maintaining adequate capital for TBC Bank; and (II) ensuring consistency of dividend payment to shareholders in sufficient amounts. Excessive dividends will not be paid out if it jeopardizes TBC's current capital adequacy or future growth opportunities. Dividend payments are made only when: (a) the dividends are in compliance with TBC Bank's approved capital plan; (b) the dividend amounts are in accordance with all regulatory requirements and internal regulations of TBC Bank, thus not putting in jeopardy future expansion; and (c) the dividend payments do not adversely impact TBC's capital structure and related regulatory capital ratio requirements.

DISCLAIMER

By reading this Report, you acknowledge and agree to be bound by the following:

None of the future projections, expectations, estimates or prospects in this Report should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared are correct or exhaustive or, in the case of the assumptions, fully stated in the Report. These forward-looking statements speak only as at the date as of which they are made, and the Bank expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in the Report to reflect actual results, changes in assumptions or changes in factors affecting these statements.

The information and opinions contained in this Report are provided as at the date of the Report, are based on general information gathered at such date and are subject to change without notice. The Bank relies on information obtained from sources believed to be reliable but does not guarantee its accuracy or completeness.

Neither the Bank, nor any of its respective agents, employees or advisers intends or has any duty or obligation to provide the recipient with access to any additional information, to amend, update or revise this Report or any information contained in the Report.

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ADDITIONAL INFORMATION

RATIOS EXPLANATION

	2013	2012	Q4'13	Q3'13	Q4'12
ROAE[1]	18.7%	18.6%	19.8%	19.9%	16.9%
ROAA[2]	3.1%	2.7%	3.3%	3.4%	2.5%
Pre-provision ROAE	25.2%	24.1%	26.3%	24.1%	17.1%
Pre-provision ROAA	4.2%	3.5%	4.4%	4.1%	2.5%
Cost: Income[3]	52.1%	56.8%	52.3%	48.0%	64.6%
Cost of Risk[4]	1.3%	1.0%	1.3%	1.1%	-0.4%
Net Interest Margin (NIM)[5]	8.4%	7.7%	8.5%	8.6%	7.5%
Loan Yields[6]	16.6%	17.5%	16.0%	16.8%	17.4%
Deposit Rates[7]	5.5%	7.0%	4.6%	5.2%	6.8%
Interest Rate Earned on Interest Earning Assets[8]	14.1%	14.7%	13.5%	14.1%	14.4%
Cost of Funding[9]	5.9%	7.1%	5.3%	5.7%	7.0%
Spread[10]	8.2%	7.5%	8.3%	8.4%	7.5%
NPL/Gross Loans[11]	1.1%	1.0%	1.1%	1.8%	1.0%
NPL & Restructured Loans Coverage[12]	110.6%	145.1%	110.6%	129.7%	145.1%
Leverage (times)[13]	6.1	6.5	6.1	5.8	6.5
NBG Tier 1 Capital Ratio[14]	10.6%	11.2%	10.6%	11.7%	11.2%
NBG Total Capital Ratio[15]	14.6%	13.7%	14.6%	15.0%	13.7%
BIS Tier 1 Capital Ratio[16]	21.6%	20.1%	21.6%	22.4%	20.1%
Total BIS Capital Ratio[17]	28.6%	26.4%	28.6%	28.8%	26.4%

Ratio Definitions

1. Return on average total equity (ROAE) equals net income of the period divided by quarterly average total shareholders' equity for the same period; Pre-provision ROAE excludes all provision charges. Annualised where applicable.
2. Return on average total assets (ROAA) equals net income of the period divided by quarterly average total assets for the same period. Pre-provision ROAE excludes all provision charges. Annualised where applicable.
3. Cost to Income ratio equals administrative and other operating non-interest expenses of the period divided by the sum of net interest (before provisions for loan impairment) and net non-interest income of the same period.
4. Cost of risk equals provision for loan impairment divided by monthly average loans and advances to customers (before provision for loan impairment). Annualised where applicable.
5. Net interest margin is net interest income (before provision for loan impairment), divided by monthly average interest-earning assets. Annualised where applicable.
6. Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers. Annualised where applicable.
7. Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits. Annualised where applicable.
8. Interest rate earned on interest earning assets equals total interest income divided by monthly average interest earning assets. Annualised where applicable.
9. Cost of funding equals total interest expense divided by monthly average interest bearing liabilities. Annualised where applicable.
10. Spread equals difference between Interest rate earned on interest earning assets and cost of funding.
11. Non-performing loans (NPL) ratio equals loans for which principal or interest repayment is overdue for 90 days or more divided by the gross loan portfolio for the same period.
12. NPL & Restructured Loans Coverage equals loan loss provision over non-performing loans plus restructured loans and overdue for 90 days or less.
13. Leverage is defined as total assets over total equity.
14. NBG Tier I Capital Adequacy Ratio equals Tier I Capital divided by Total Risk Weighted Assets, both calculated in accordance with the requirements the National Bank of Georgia instructions.
15. NBG Total Capital Adequacy Ratio equals Total Capital divided by Total Risk Weighted Assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions.
16. BIS Tier 1 capital adequacy ratio equals Basel Tier 1 capital over total risk weighted assets.
17. BIS total capital adequacy ratio equals total Basel capital over total risk weighted assets.

Average Balances and Rates

Certain average balances included in this document, including loan yields, deposits rates, interest rate earned on interest earning assets, cost of funding, spreads and cost of risk ratios are calculated as the average of the relevant monthly balances as at each month end during the years ended 31 December 2013 and 2012 and quarters ending 31 December 2013, 30 September 2013 and 31 December 2012. Other average balances included in this document, including return on average equity and return on average assets, are calculated as the average of the relevant quarterly balances during the years ended 31 December 2013 and 2012 and quarters ending 31 December 2013, 30 September 2013 and 31 December 2012.

Balances as at 31 December 2013 and 2012 have been extracted from the Audited Consolidated Financial Statements. Balances as at the remaining month ends, in each case, have been derived from TBC's unaudited and consolidated management accounts prepared from TBC's accounting records and used by Management for monitoring and control purposes.

GLOSSARY OF TERMS

ALCO	Assets and Liabilities Management Committee of TBC's Management Board
Basel II/III Implementation Project	TBC's Basel II/III implementation project, undertaken in consultation with Ernst & Young LLC to enable TBC to implement industry best practices
BIS Guidelines	The guidelines on capital adequacy standards for international banks contained in the July 1988 text of the Basel Capital Accord, published by the Basel Committee on Banking Supervision (as amended, updated or supplemented from time to time)
CPI	Consumer price index
CRM	Oracle Siebel Customer Relationship Management system
DCFTA	Deep and Comprehensive Free Trade Area
EU Association Agreement	Association Agreement with the European Union initialed by Georgia on 28 November 2013 at the EU Eastern Partnership summit held in Vilnius, Lithuania
EWST	Enterprise Wide Stress Test used by TBC to confirm that existing capital is sufficient to withstand severe stress events
FDI	Foreign direct investment
Fitch	Fitch Ratings Ltd
Geostat	Legal Entity of Public Law National Statistics Office of Georgia
ICAAP	Internal Capital Adequacy Assessment Process adopted by TBC for the purposes of calculating capital adequacy under pillar 2
IFRS	International Financial Reporting Standards
Independent Auditor's Report	The audit report appearing in the Prospectus, prepared by PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch, as independent auditors of TBC's Audited Consolidated Financial Statements as at and for the years ended 31 December 2013, 2012 and 2011
Moody's	Moody's Investors Service Ltd.
NBG	National Bank of Georgia
SME	Small and medium enterprises
TBC	TBC Bank and its subsidiaries, unless otherwise indicated in the text
TBC Bank	TBC Bank Joint Stock Company
TBC Group	TBC Bank and its subsidiaries

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