TBC BANK GROUP

International Financial Reporting Standards Condensed Consolidated Interim Financial Information (Unaudited)

31 March 2014

CONTENTS

REVIEW REPORT

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Report on review of interim financial information

To the Shareholders and Management of JSC TBC Bank:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of JSC TBC Bank and its subsidiaries (the 'Group') as of 31 March 2014 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch.

8 May 2014
Tbilisi, Georgia

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TBC Bank Group
Condensed Consolidated Interim Statement of Financial Position
(Unaudited – see the Review Report)

In thousands of GEL	Note	31 March 2014 (Unaudited)	31 December 2013 (Audited)
ASSETS			
Cash and cash equivalents	6	329,568	390,465
Due from other banks	7	2,619	1,708
Mandatory cash balances with the National Bank of Georgia	8	294,990	295,332
Loans and advances to customers	9	2,772,629	2,801,712
Investment securities available for sale		568,865	500,651
Investments in finance leases		38,548	35,613
Investment properties		83,331	83,383
Current income tax prepayment		4,858	6,202
Goodwill		2,726	2,726
Intangible assets	10	26,672	23,491
Premises and equipment	10	199,171	199,668
Other financial assets		44,092	45,049
Other assets		69,822	65,075
TOTAL ASSETS		**4,437,891**	**4,451,075**
LIABILITIES			
Due to credit institutions	11	687,731	565,806
Customer accounts	12	2,753,884	2,886,883
Debt securities in issue		4,517	4,474
Deferred income tax liability		27,882	27,814
Provisions for liabilities and charges	13	10,581	12,380
Other financial liabilities		30,619	24,850
Other liabilities		22,955	31,305
Subordinated debt	14	172,787	168,274
TOTAL LIABILITIES		**3,710,956**	**3,721,786**
EQUITY			
Share capital	15	16,499	16,499
Share premium	15	241,231	242,624
Retained earnings		410,935	402,627
Share based payment reserve		2,658	2,032
Other reserves		42,426	50,840
Net assets attributable to the Bank's equity holders		**713,749**	**714,622**
Non-controlling interest		**13,186**	**14,667**
TOTAL EQUITY		**726,935**	**729,289**
TOTAL LIABILITIES AND EQUITY		**4,437,891**	**4,451,075**

Approved for issue and signed on behalf of the Management Board on 8 May 2014.

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 5 to 51 form an integral part of this unaudited condensed consolidated interim financial information.

In thousands of GEL	Notes	Three months ended 31 March 2014 (Unaudited)	Three months ended 31 March 2013 (Unaudited)
Interest income	19	122,767	118,150
Interest expense	19	(42,347)	(51,467)
Net interest income		**80,420**	**66,683**
Fee and commission income	20	15,809	14,906
Fee and commission expense	20	(6,464)	(5,688)
Net fee and commission income		**9,345**	**9,218**
Gains less losses from trading in foreign currencies		9,493	4,890
Foreign exchange translation (losses less gains) / gains less losses		(1,701)	2,993
Losses less gains from derivative financial instruments		(177)	(462)
Other operating income	21	5,981	3,892
Other operating non-interest income		**13,596**	**11,313**
Provision for loan impairment	9	(14,586)	(19,652)
Provision for impairment of investments in finance lease		(9)	(24)
Recovery of provision / (provision for) performance guarantees and credit related commitments	13	1,799	(95)
Provision for impairment of other financial assets		(190)	(370)
Impairment of investment securities available for sale		(22)	(5)
Operating income after provisions for impairment		**90,353**	**67,068**
Staff costs		(26,984)	(25,748)
Depreciation and amortisation		(5,295)	(5,505)
Administrative and other operating expenses	22	(16,970)	(13,041)
Operating expenses		**(49,249)**	**(44,294)**
Profit before tax		**41,104**	**22,774**
Income tax expense	23	(5,165)	(3,031)
Profit for the period		**35,939**	**19,743**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Revaluation of available-for-sale investments		(8,605)	2,855
Exchange differences on translation to presentation currency		173	62
Income tax recorded directly in other comprehensive income		18	(57)
Other comprehensive (loss) / income for the period		**(8,414)**	**2,860**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**27,525**	**22,603**
Profit is attributable to:			
- Owners of the Bank		35,415	19,147
- Non-controlling interest		524	596
Profit for the period		**35,939**	**19,743**
Total comprehensive income is attributable to:			
- Owners of the Bank		27,001	22,007
- Non-controlling interest		524	596
Total comprehensive income for the period		**27,525**	**22,603**
Earnings per share for profit attributable to the owners of the Bank:			
- Basic earnings per share	17	0.85	0.47
- Diluted earnings per share	17	0.85	0.47

	Net assets Attributable to owners							
In thousands of GEL	**Share capital**	**Share premium**	**Share based payments reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-control-ling interest**	**Total equity**
Balance at 1 January 2013	**16,143**	**231,501**	**4,142**	**41,939**	**298,880**	**592,605**	**11,419**	**604,024**
Profit for the three months ended 31 March 2013	-	-	-	-	19,147	**19,147**	596	**19,743**
Other comprehensive income for three months ended 31 March 2013	-	-	-	2,860	-	**2,860**	-	**2,860**
Total comprehensive income for three months ended 31 March 2013	-	-	-	2,860	19,147	**22,007**	596	**22,603**
Share issue	32	930	-	-	-	**962**	-	**962**
Equity contribution of owners of non-controlling shareholders	-	-	-	-	-	**-**	444	**444**
Balance at 31 March 2013 (Unaudited)	**16,175**	**232,431**	**4,142**	**44,799**	**318,027**	**615,574**	**12,459**	**628,033**
Balance at 1 January 2014	**16,499**	**242,624**	**2,032**	**50,840**	**402,627**	**714,622**	**14,667**	**729,289**
Profit for the three months ended 31 March 2014	-	-	-	-	35,415	**35,415**	524	**35,939**
Other comprehensive income for three months ended 31 March 2014	**-**	-	-	(8,414)	-	**(8,414)**	-	**(8,414)**
Total comprehensive income for three months ended 31 March 2014	-	**-**	**-**	(8,414)	35,415	**27,001**	524	**27,525**
Share based payment	-	-	626	-	-	**626**	-	**626**
Transaction costs recognized directly in equity	-	(1,393)	-	-	-	**(1,393)**	-	**(1,393)**
Purchase of additional interest from minority shareholders	-	-	-	-	(615)	**(615)**	(2,005)	**(2,620)**
Dividends paid	-	-	-	-	(26,492)	**(26,492)**	-	**(26,492)**
Balance at 31 March 2014 (Unaudited)	**16,499**	**241,231**	**2,658**	**42,426**	**410,935**	**713,749**	**13,186**	**726,935**

The notes set out on pages 5 to 51 form an integral part of this unaudited condensed consolidated interim financial information.

In thousands of GEL	Note	Three months ended 31 March 2014 (Unaudited)	Three months ended 31 March 2013 (Unaudited)
Cash flows from operating activities			
Interest received		121,519	109,906
Interest paid		(41,716)	(45,898)
Fees and commissions received		16,081	15,063
Fees and commissions paid		(6,322)	(5,283)
Income received from trading in foreign currencies		9,493	4,890
Other operating income received		5,671	2,803
Staff costs paid		(32,351)	(29,806)
Administrative and other operating expenses paid		(17,038)	(12,856)
Income tax paid		(3,661)	(73)
Cash flows from operating activities before changes in operating assets and liabilities		**51,676**	**38,746**
Changes in operating assets and liabilities			
Net (increase)/decrease in due from other banks		(387)	60,384
Net decrease in loans and advances to customers		12,990	2,663
Net increase in investment in finance lease		(2,944)	(1,475)
Net decrease in other financial assets		643	522
Net decrease/(increase) in other assets		2,442	(7,347)
Net increase/(decrease) in due to other banks		47,426	(23,822)
Net decrease in customer accounts		(140,285)	(97,474)
Net increase in other financial liabilities		5,322	2,704
Net (decrease)/increase in other liabilities		(2,370)	407
Net cash used in operating activities		**(25,487)**	**(24,692)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(267,112)	(813,864)
Proceeds from disposal of investment securities available for sale		51,369	-
Proceeds from redemption at maturity of investment securities available for sale		144,691	758,133
Acquisition of premises, equipment and intangible assets		(7,607)	(5,961)
Proceeds from disposal of investment property		1,743	1,580
Purchase of additional shares in subsidiaries		(2,620)	-
Net cash used in investing activities		**(79,536)**	**(60,112)**
Cash flows from financing activities			
Proceeds from other borrowed funds		283,596	204,404
Redemption of other borrowed funds		(213,057)	(286,695)
Proceeds from subordinated debt		-	192
Dividends paid		(26,492)	-
Equity contribution of owners of non-controlling shareholders		-	444
Issue of ordinary shares		-	962
Transaction costs recognized directly in equity		(1,393)	-
Net cash from/(used in) financing activities		**42,654**	**(80,693)**
Effect of exchange rate changes on cash and cash equivalents		**1,472**	**(1,267)**
Net decrease in cash and cash equivalents		**(60,897)**	**(166,764)**
Cash and cash equivalents at the beginning of the period	6	390,465	398,587
Cash and cash equivalents at the end of the period	6	**329,568**	**231,823**

The notes set out on pages 5 to 51 form an integral part of this unaudited condensed consolidated interim financial information.

1 Introduction

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" for the three months ended 31 March 2014 for TBC Bank (the "Bank") and its subsidiaries (together referred to as the "Group" or "TBC Bank Group").

This condensed consolidated interim financial information has been reviewed, not audited.

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.

The Group does not have an ultimate controlling party. As at 31 March 2014 and 31 December 2013, the shareholder structure by ownership interest is as follows:

Shareholders	31 March 2014 Ownership interest,%	31 December 2013 Ownership interest,%
International Finance Corporation	20%	20%
European Bank for Reconstruction and Development ("EBRD")	20%	20%
TBC Holdings LTD	19%	19%
Deutsche Investitions und Entwicklungsgesellschaft MBH	11%	11%
Liquid Crystal International N.V. LLC	7%	7%
Individuals	9%	9%
JPMorgan Chase Bank	5%	5%
Ashmore Cayman SPC	4%	4%
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	5%	5%
Total	**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 (31 December 2013: 13) branches and 47 (31 December 2013: 47) service centres within Georgia. At 31 March 2014, the Bank had 2,889 employees (31 December 2013: 2,893).

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

The condensed consolidated interim financial information includes the following principal subsidiaries:

Subsidiary	31 March 2014 Ownership interest,%	31 December 2013 Ownership interest,%	Country	Date of incorpo-ration or acquisition	Industry
United Financial Corporation JSC	98.66%	93.32%	Georgia	1997	Card processing
TBC Broker LLC	100%	100%	Georgia	1999	Brokerage
TBC Leasing JSC	89.53%	89.53%	Georgia	2003	Leasing
TBC Kredit LLC	75%	75%	Azerbaijan	2008	Non-banking credit institution
Banking System Service Company LLC	100%	100%	Georgia	2009	Information services
TBC Pay LLC	100%	100%	Georgia	2009	Processing
Real Estate Management Fund JSC	100%	100%	Georgia	2010	Real estate management
TBC Invest LLC	100%	100%	Israel	2011	PR and marketing
Bank Constanta JSC	88.69%	84.69%	Georgia	2011	Financial institution

1 Introduction (Continued)

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

Presentation currency. This condensed consolidated interim financial information is presented in thousands of Georgian Lari ("GEL thousands"), unless otherwise indicated.

2 Summary of Significant Accounting Policies

Basis of preparation. This condensed consolidated interim financial information has been prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Except as described below, the same accounting policies and methods of computation were followed in the preparation of this condensed consolidated interim financial information as used in the preparation of the annual consolidated financial statements for the year ended 31 December 2013.

Interim period tax measurement. Interim period income tax expense is accrued using the effective tax rate that would be applicable to expected total annual earnings, that is, the estimated weighted average annual effective income tax rate applied to the pre-tax income of the interim period.

Foreign currency translation. At 31 March 2014 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.7477 (31 December 2013: USD 1 = GEL 1.7363); EUR 1 = GEL 2.4001 (31 December 2013: EUR 1 = GEL 2.1825).

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

Estimates and judgements that have the most significant effect on the amounts recognised in the interim financial information are:

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 7,426 thousand (31 March 2013: GEL 9,067 thousand) and additional charge for impairment of finance lease receivables of GEL 9 thousand (31 March 2013: GEL 6 thousand), respectively.

Impairment provisions for individually significant loans and leases are based on the estimate of discounted future cash flows of the individual loans and leases taking into account repayments and realisation of any assets held as collateral against the loan or the lease. A 5% increase or decrease in the actual future discounted cash flows from individually significant loans which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for loan loss provision of GEL 3,071 thousand (31 March 2013: GEL 3,462 thousand), respectively.

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

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 (31 March 2013: 3 thousand), respectively.

Fair value disclosure of investment properties. Investment properties held by the Group are carried at cost. However, as per the requirements of IAS 40, the Group also discloses the fair value of investment properties as at the reporting dates. Fair value is determined by internal appraisers of the group, who hold a recognised and relevant professional qualification. In determining the fair values of investment properties, three market comparatives are identified. As comparatives are usually somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined are then multiplied by the area of the valued property to arrive at the appraised value of the investment property. At 31 March 2014, investment properties comprised real estate assets located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 86,278 thousand (31 December 2013: GEL 86,480 thousand).

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 24.

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 March 2014 and 31 December 2013, there were no loans and advances at other than market conditions. Terms and conditions of related party balances are disclosed in Note 28.

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 16). 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

Certain new standards, interpretations and amendments to the existing standards, as disclosed in the consolidated financial statements for the year ended 31 December 2013, became effective for the Group from 1 January 2014.

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The amendment had no effect on the Group's condensed consolidated interim financial information.

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

"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 amendments had no effect on the Group's condensed consolidated interim financial information.

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 amendment had no effect on the Group's condensed consolidated interim financial information.

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 amendment had no effect on the Group's condensed consolidated interim financial information.

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 amendment had no effect on the Group's condensed consolidated interim financial information.

5 New Accounting Pronouncements

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

IFRS 9, "Financial Instruments: Classification and Measurement". 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.
- 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.

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.

5 New Accounting Pronouncements (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

6 Cash and Cash Equivalents

In thousands of GEL	**31 March 2014**	**31 December 2013**
Cash on hand	174,166	165,385
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	12,792	61,407
Correspondent accounts and overnight placements with other banks	73,256	79,643
Placements with and receivables from other banks with original maturities of less than three months	69,354	84,030
Total cash and cash equivalents	**329,568**	**390,465**

92% of correspondent accounts and overnight placements with other banks are placed with OECD banking institutions (31 December 2013: 93%).

As at 31 March 2014 GEL 69,354 thousand was placed on interbank time deposits with four non-OECD banks (31 December 2013: 84,030 thousand with four non-OECD 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 31 March 2014 and 31 December 2013. As of 31 March 2014, GEL 2,603 thousand (31 December 2013: GEL 1,615 thousand) were kept on deposits as restricted cash.

Refer to Note 27 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 25.

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 the three months ended 31 March 2014 and in the three months ended 31 March 2013.

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	31 March 2014	31 December 2013
Corporate loans	1,049,789	1,157,334
Consumer loans	603,386	603,434
Mortgage loans	530,631	499,428
Loans to small and medium enterprises	404,761	392,446
Micro loans	218,011	201,287
Others	114,561	104,652
Total loans and advances to customers (before impairment)	**2,921,139**	**2,958,581**
Less: Provision for loan impairment	(148,510)	(156,869)
Total loans and advances to customers	**2,772,629**	**2,801,712**

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 the three months ended 31 March 2014 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro Loans	Other	Total
Provision for loan impairment at 1 January 2014	**107,666**	**31,704**	**8,292**	**4,315**	**4,892**	**-**	**156,869**
Provision for / (recovery of) impairment during the period	9,243	4,963	3,695	1,045	1,768	14	**20,728**
Amounts written off during the period as uncollectible	(22,930)	(3,909)	(410)	(437)	(1,387)	(14)	**(29,087)**
Provision for loan impairment at 31 March 2014	**93,979**	**32,758**	**11,577**	**4,923**	**5,273**	**-**	**148,510**

The provision for impairment during three months ended 31 March 2014 differs from the amount presented in profit or loss for the period due to GEL 6,142 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 period.

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

Movements in the provision for loan impairment during the three months ended 31 March 2013 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro Loans	Others	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 period	12,520	8,190	(12)	1,556	38	**5**	**22,297**
Amounts written off during the period as uncollectible	(623)	(4,122)	(971)	(809)	(938)	**-**	**(7,463)**
Provision for loan impairment at 31 March 2013	**124,872**	**35,224**	**12,203**	**5,567**	**3,461**	**5**	**181,332**

The provision for impairment during three months ended 31 March 2013 differs from the amount presented in profit or loss for the period due to GEL 2,645 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 period.

9 Loans and Advances to Customers (Continued)

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

	31 March 2014		**31 December 2013**	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individual	1,134,017	39%	1,102,863	37%
Service	506,611	17%	539,825	18%
Agriculture	180,646	6%	164,441	6%
Real estate	132,243	5%	132,321	5%
Consumer goods and automobile trading	143,897	4%	130,152	4%
Oil and gas	124,101	4%	121,921	4%
Pawn shop	114,561	4%	104,652	4%
Energy	106,907	4%	106,083	4%
Food industry	103,086	4%	158,865	5%
Construction	101,150	3%	101,879	3%
Communication	79,056	3%	102,547	4%
Transportation	68,921	2%	67,223	2%
Mining	49,705	2%	40,346	1%
Manufacturing	31,570	1%	33,609	1%
Other	44,668	2%	51,854	2%
Total loans and advances to customers (before impairment)	**2,921,139**	**100%**	**2,958,581**	**100%**

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

At 31 March 2014 the Group had 64 borrowers (31 December 2013: 62 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 824,393 thousand (31 December 2013: GEL 910,248 thousand) or 28% of the gross loan portfolio (31 December 2013: 31%).

9 Loans and Advances to Customers (Continued)

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

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
- Borrowers with credit history over two years	737,611	258,387	343,504	185,237	80,597	11,082	**1,616,418**
- New borrowers	141,518	303,419	169,697	199,730	129,867	98,275	**1,042,506**
Total neither past due nor impaired	**879,129**	**561,806**	**513,201**	**384,967**	**210,464**	**109,357**	**2,658,924**
Past due but not impaired							
- 1 to 30 days overdue	2,731	14,405	3,796	5,544	2,216	1,074	**29,766**
- 31 to 90 days overdue	2,772	306	21	380	-	3,663	**7,142**
- 91 to 180 days overdue	411	-	-	-	-	77	**488**
- 181 to 360 days overdue	393	-	-	-	-	83	**476**
- more than 360 days overdue	-	-	-	-	-	307	**307**
Total past due but not impaired	**6,307**	**14,711**	**3,817**	**5,924**	**2,216**	**5,204**	**38,179**
Individually assessed impaired loans (gross)							
- not overdue	121,572	-	-	-	-	-	**121,572**
- 1 to 30 days overdue	19,653	-	-	2,367	-	-	**22,020**
- 30 to 90 days overdue	9,506	-	-	-	-	-	**9,506**
- 181 to 360 days overdue	10,367	-	-	-	-	-	**10,367**
Total individually assessed impaired loans	**161,098**	**-**	**-**	**2,367**	**-**	**-**	**163,465**
Collectively assessed impaired loans (gross)							
- not overdue	2,510	5,959	4,271	1,853	1,521	-	**16,114**
- 1 to 30 days overdue	-	889	670	613	408	-	**2,580**
- 31 to 90 days overdue	449	9,480	6,641	5,803	1,628	-	**24,001**
- 91 to 180 days overdue	-	7,113	1,351	1,951	1,567	-	**11,982**
- 181 to 360 days overdue	296	2,882	680	889	27	-	**4,774**
- more than 360 days overdue	-	546	-	394	180	-	**1,120**
Total collectively assessed impaired loans	**3,255**	**26,869**	**13,613**	**11,503**	**5,331**	**-**	**60,571**
Total loans and advances to customers (before impairment)	**1,049,789**	**603,386**	**530,631**	**404,761**	**218,011**	**114,561**	**2,921,139**
Total provision	**(93,979)**	**(32,758)**	**(11,577)**	**(4,923)**	**(5,273)**	**-**	**(148,510)**
Total loans and advances to customers	**955,810**	**570,628**	**519,054**	**399,838**	**212,738**	**114,561**	**2,772,629**

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**

The retail segment in Note 18 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 March 2014:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	787,526	1,872,503	262,263	177,250
Consumer loans	404,079	964,539	199,307	5,199
Mortgage loans	509,725	1,249,544	20,906	5,520
Loans to small and medium enterprises	386,343	1,190,117	18,418	3,318
Micro loans	109,462	207,651	108,549	4,150
Others	108,778	126,642	5,783	5,491
Total	**2,305,913**	**5,610,996**	**615,226**	**200,928**

The effect of collateral at 31 December 2013:

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

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 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 27 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 25. Information on related party balances is disclosed in Note 28

10 Premises and Equipment

In thousands of GEL	Premises and leasehold improve-ments	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2013	138,744	97,732	36,010	**272,486**	27,003	**299,489**
Accumulated depreciation/amortisation	(20,724)	(59,206)	-	**(79,930)**	(8,186)	**(88,116)**
Carrying amount at 1 January 2013	**118,020**	**38,526**	**36,010**	**192,556**	**18,817**	**211,373**
Additions	139	3,594	195	**3,928**	2,081	**6,009**
Transfers	77	119	(196)	**-**	-	**-**
Disposals	(667)	(664)	-	**(1,331)**	(28)	**(1,359)**
Reversal of impairment/impairment charge to profit and loss	-	89	1	**90**	(2)	**88**
Depreciation/amortisation charge	(1,205)	(2,943)	-	**(4,148)**	(1,288)	**(5,436)**
Elimination of accumulated depreciation/amortisation on disposals	484	659	-	**1,143**	17	**1,160**
Carrying amount at 31 March 2013	**116,848**	**39,380**	**36,010**	**192,238**	**19,597**	**211,835**
Cost or valuation at 31 March 2013	138,293	100,870	36,010	**275,173**	29,054	**304,227**
Accumulated depreciation/amortisation including accumulated impairment loss	(21,445)	(61,490)	-	**(82,935)**	(9,457)	**(92,392)**
Cost or valuation at 1 January 2014	142,683	113,273	35,619	**291,575**	35,681	**327,256**
Accumulated depreciation/amortisation	(23,678)	(68,229)	-	**(91,907)**	(12,190)	**(104,097)**
Carrying amount at 1 January 2014	**119,005**	**45,044**	**35,619**	**199,668**	**23,491**	**223,159**
Additions	130	3,291	117	**3,538**	4,129	**7,667**
Transfers	341	27	(368)	**-**	-	**-**
Disposals	(14)	(903)	(67)	**(984)**	(59)	**(1,043)**
Impairment charge to profit and loss	-	(11)	3	**(8)**	-	**(8)**
Depreciation/amortisation charge	(781)	(3,191)	-	**(3,972)**	(949)	**(4,921)**
Elimination of accumulated depreciation/amortisation on disposals	7	922	-	**929**	60	**989**
Carrying amount at 31 March 2014	**118,688**	**45,179**	**35,304**	**199,171**	**26,672**	**225,843**
Cost or valuation at 31 March 2014	143,140	115,677	35,304	**294,121**	39,751	**333,872**
Accumulated depreciation/amortisation including accumulated impairment loss	(24,452)	(70,498)	-	**(94,950)**	(13,079)	**(108,029)**

Depreciation and amortisation charge presented on the face of the condensed consolidated interim statement of comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

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

The Group revalues premises every three years or if there are significant movements in the real estate prices on the market. Premises were revalued to market value at 6 July 2012. The valuation was carried out by an independent firm of valuators which holds recognised and relevant professional qualifications and who have recent experience in valuation of assets of similar location and category.

10 Premises and Equipment (Continued)

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

In thousands of GEL (except for range of inputs)	**Fair value as of 6 July 2012 (valuation date)**	**Carrying value at 31 December 2013**	**Carrying value at 31 March 2014**	**Valuation technique**	**Other key informa-tion**	**Unobser-vable inputs**	**Range of unobservable inputs (weighted average)**
Office buildings	54,757	56,502	56,467	Sales comparison approach	Land	Price per square meter	382 - 3,784 (577)
					Buildings		244 - 2,926 (704)
Branches and service centers	81,134	82,437	82,131	Sales comparison approach	Land	Price per square meter	3 - 2,468 (345)
					Buildings		325 - 9,864 (2,292)

11 Due to Credit Institutions

In thousands of GEL	**31 March 2014**	**31 December 2013**
Due to other banks		
Correspondent accounts and overnight placements	31,099	4,894
Deposits from banks	63,590	42,358
Total due to other banks	**94,689**	**47,252**
Other borrowed funds		
Borrowings from foreign banks and financial institutions	411,161	417,504
Borrowings from local banks and financial institutions	173,730	92,987
Borrowings from Ministry of Finance	8,151	8,063
Total other borrowed funds	**593,042**	**518,554**
Total amounts due to credit institutions	**687,731**	**565,806**

12 Customer Accounts

In thousands of GEL	**31 March 2014**	**31 December 2013**
State and public organisations		
- Current/settlement accounts	59,294	134,518
- Term deposits	109,469	72,463
Other legal entities		
- Current/settlement accounts	782,605	935,083
- Term deposits	153,017	134,143
Individuals		
- Current/demand accounts	627,205	621,211
- Term deposits	1,022,294	989,465
Total customer accounts	**2,753,884**	**2,886,883**

State and public organisations include government owned profit oriented businesses.

12 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	31 March 2014		31 December 2013	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individual	1,649,499	60%	1,610,676	56%
Trade and Service	313,406	11%	344,803	12%
Oil and Gas	126,443	5%	147,005	5%
Construction	97,628	4%	131,427	5%
Transportation	95,639	3%	129,096	4%
Energy	64,428	2%	57,179	2%
Consumer Goods and Automobile Trading	50,148	2%	72,739	2%
Real Estate	46,782	2%	57,798	2%
Food Industry	45,420	2%	97,421	3%
Communication	33,725	1%	28,909	1%
Agriculture	27,733	1%	23,772	1%
Manufacturing	16,357	1%	21,013	1%
Mining	13,186	0%	21,746	1%
Other	173,490	6%	143,299	5%
Total customer accounts	**2,753,884**	**100%**	**2,886,883**	**100%**

At 31 March 2014 the Group had 93 customers (31 December 2013: 97 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 766,391 thousand (31 December 2013: GEL 915,407 thousand) or 28% (31 December 2013: 32%) of total customer accounts.

At 31 March 2014 included in customer accounts are deposits of GEL 19,120 thousand and GEL 49,368 thousand (31 December 2013: GEL 9,652 thousand and GEL 38,973 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 24.

Refer to Note 27 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 25. Information on related party balances is disclosed in Note 28.

13 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 2013	**2,332**	**842**	**3,000**	**6,174**
Additions less releases recorded in profit or loss	(159)	254	-	95
Carrying amount at 31 March 2013	**2,173**	**1,096**	**3,000**	**6,269**
Carrying amount at 1 January 2014	**4,153**	**4,927**	**3,300**	**12,380**
Releases less additions recorded in profit or loss	(411)	(1,388)	-	(1,799)
Carrying amount at 31 March 2014	**3,742**	**3,539**	**3,300**	**10,581**

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 end of reporting period.

14 Subordinated Debt

At 31 March 2014, 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	19,048	33,291
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	19,074	33,335
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	35,773	62,520
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	10,131	17,706
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	7,622	13,322
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,217	12,613
Total subordinated debt			**98,865**	**172,787**

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**

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

Refer to Note 27 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 28

15 Share Capital

In thousands of GEL except for number of shares	Number of outstanding shares	Ordinary shares	Share premium	Total
At 1 January 2013	**161,419**	**16,143**	**231,501**	**247,644**
Shares issued	2,411	240	7,097	**7,337**
Increase in share capital arising from share based payment	1,157	116	4,026	**4,142**
At 31 December 2013	**164,987**	**16,499**	**242,624**	**259,123**
Share split	41,081,763	-	-	-
Transaction costs recognized directly in equity		-	(1,393)	**(1,393)**
At 31 March 2014	**41,246,750**	**16,499**	**241,231**	**257,730**

On 4 March 2014, Shareholders of the Bank approved the spilt of the ordinary shares 250-for-1 and authorised for issue additional 10,445,387 shares. Following this decision the total authorised number of ordinary amounted to 53,090,637 shares (31 December 2013: 170,581 shares). All issued ordinary shares are fully paid.

All ordinary shares have a nominal value of GEL 0.4 per share after the split (31 December 2013: GEL 100 per share) and rank equally except for 307,250 unvested shares not included in share capital and outstanding shares above, that were registered in the name of the management under share based payment arrangement and which do not have voting rights before service conditions are met (see Note 16). All other shares carry one vote.

At the reporting date the Bank also has 730,250 authorised shares reserved for issuance under share based payment arrangement (31 December 2013: 4,150 shares). For description of share based payment scheme refer to Note 16. Per management's estimate, the number of shares that the Bank will need to issue under the share based payment arrangement approximates 424,750 (31 December 2013: 2,797).

Transaction costs, that is, incremental costs, are costs directly attributable to the equity transaction that otherwise would have been avoided had the equity instruments not been issued. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. If the equity instruments are not subsequently issued, the transaction costs of GEL 1,393 thousand will be recycled through profit or loss.

16 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.

16 Share Based Payments (Continued)

The Group considers 3 May 2011 as the grant date. The fair value of the shares as at the grant date was estimated at GEL 2,837 per share. The valuation was carried out by an external valuator. All staff costs related to this Senior Management Bonus scheme have been recognised during the vesting period. The last outstanding shares out of the 3,300 share grant were issued in April 2013 and the share based payment reserve was debited by GEL 4,142 thousand.

June 2013 arrangement:

In June 2013, Supervisory Board of the Bank approved a new management compensation scheme for the years 2013 – 2015 and authorised 4,150 new shares as a maximum estimated number of new shares to be issued in accordance with the scheme. Authorized numbers of new shares have increased to 1,037,500 new shares in order to reflect the share split 250-for-1 approved by the Shareholders on 4 March 2014. According to the scheme, each year, subject to predefined performance conditions, certain number of the shares will be awarded to the top management and some of the middle managers of the Group. The performance conditions are divided into 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.

The Group considers 20 June 2013 as the grant date. Based on management's estimate of expected achievement of performance and service conditions 732,000 shares have been granted that will be gradually awarded to the members of the scheme as described above. The fair value of the share at the grant date, as adjusted for the effect of 250-for-1 share split, is evaluated at GEL 13,93 per share and the valuation was carried out by an external valuator. The valuation was performed by applying 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 the Bank's equity so calculated was then divided by the number of ordinary shares issued as of valuation date and further reduced with the discount for lack of control.

16 Share Based Payments (Continued)

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

In GEL except for number of shares	31 March 2014	31 March 2013 (not adjusted for the share split)
Number of unvested shares at the beginning of the period	**2,797**	**1,157**
Increase in the number of unvested shares due to 250-for-1 split	696,453	-
Change in estimate of number of shares expected to vest based on performance conditions	32,750	-
Number of unvested shares at the end of the period	**732,000**	**1,157**
Value at grant date per share as adjusted for 250-for-1 split (GEL) / Value at grant date per share (GEL)	13,93	2,837
Expense on equity-settled part (GEL thousand)	626	-
Expense on cash-settled part (GEL thousand)	152	-
Expense recognised as staff cost during the period (GEL thousand)	**778**	**-**

Liability in respect of the cash-settled part of the award amounted to GEL 819 thousand as of 31 March 2014 (31 December 2013: GEL 2,055 thousand).

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity.

17 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 period.

In thousands of GEL except for number of shares	31 March 2014	31 March 2013
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme – refer to Note 16)	35,153	19,147
Weighted average number of ordinary shares in issue	41,246,750	40,421,625
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**0.85**	**0.47**

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	31 March 2014	31 March 2013
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme – refer to Note 16)	35,275	19,147
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	41,527,629	40,713,125
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**0.85**	**0.47**

18 Segment Information

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

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

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

The reportable segments are the same as the operating segments.

The vast majority of the entity's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in note 25.

Segment information for the reportable segments of the Group for the three months periods ended 31 March 2014 is set out below:

18 Segment Information (Continued)

In thousands of GEL	Retail	Corporate	SME	Micro	Corporate center and other operations	Total
Three months ended 31 March 2014						
− Interest income	53,092	33,697	12,238	12,985	10,755	**122,767**
− interest expense	(19,701)	(5,600)	(1,987)	(57)	(15,002)	**(42,347)**
− Inter-segment interest income/(expense)	2,174	(12,884)	(780)	(4,340)	15,830	**-**
− **Net interest income**	**35,565**	**15,213**	**9,471**	**8,588**	**11,583**	**80,420**
− Fee and commission income	9,467	3,610	1,974	755	3	**15,809**
− Fee and commission expense	(5,512)	(474)	(222)	(214)	(42)	**(6,464)**
− **Net fee and commission income**	**3,955**	**3,136**	**1,752**	**541**	**(39)**	**9,345**
− Gains less losses from trading in foreign currencies	1,948	2,847	2,472	344	1,882	**9,493**
− Foreign exchange translation losses less gains	-	-	-	-	(1,701)	**(1,701)**
− Net gain from derivative financial instruments	-	-	-	-	(177)	**(177)**
− Other operating income	-	-	-	-	5,981	**5,981**
− **Other operating non-interest income**	**1,948**	**2,847**	**2,472**	**344**	**5,985**	**13,596**
− Provision for loan impairment	(7,031)	(5,652)	(603)	(1,300)	-	**(14,586)**
− Provision for performance guarantees and credit related commitments	-	1,972	(173)	-	-	**1,799**
− Provision for impairment of investments in finance lease	-	-	-	-	(9)	**(9)**
− Provision for impairment of other financial assets	-	-	-	-	(190)	**(190)**
− Impairment of investment securities available for sale	-	-	-	-	(22)	**(22)**
− **Operating income after provisions for impairment**	**34,437**	**17,516**	**12,919**	**8,173**	**17,308**	**90,353**
− Staff costs	(12,467)	(2,483)	(2,465)	(3,844)	(5,725)	**(26,984)**
− Depreciation and amortisation	(2,942)	(185)	(456)	(594)	(1,118)	**(5,295)**
− Administrative and other operating expenses	(8,594)	(1,218)	(1,294)	(2,340)	(3,524)	**(16,970)**
− **Operating expenses**	**(24,003)**	**(3,886)**	**(4,215)**	**(6,778)**	**(10,367)**	**(49,249)**
− **Profit before tax**	**10,434**	**13,630**	**8,704**	**1,395**	**6,941**	**41,104**
− Income tax expense	(1,311)	(1,713)	(1,094)	(176)	(871)	**(5,165)**
− **Profit for the period**	**9,123**	**11,917**	**7,610**	**1,219**	**6,070**	**35,939**
31 March 2014						
− Total gross loans and advances to customers reported	1,248,578	1,049,789	404,761	218,011	-	**2,921,139**
− Total customer accounts reported	1,649,498	672,221	427,966	4,199	-	**2,753,884**
− Total credit related commitments and performance guarantees	776	323,598	38,308	109	-	**362,791**

18 Segment Information (Continued)

Segment information for the reportable segments of the Group for the three months periods ended 31 March 2013 is as follows:

In thousands of GEL	Retail	Corporate	SME	Micro	Corporate centre and other operations	Total
Three months ended 31 March 2013						
− Interest income	50,105	36,058	10,358	11,374	10,255	118,150
− interest expense	(26,238)	(10,171)	(1,851)	(77)	(13,130)	(51,467)
− Inter-segment interest income/(expense)	8,314	(13,973)	(960)	(3,586)	10,205	-
− **Net interest income**	**32,181**	**11,914**	**7,547**	**7,711**	**7,330**	**66,683**
− Fee and commission income	9,408	3,459	1,561	478	-	14,906
− Fee and commission expense	(4,350)	(819)	(343)	(128)	(48)	(5,688)
− **Net fee and commission income**	**5,058**	**2,640**	**1,218**	**350**	**(48)**	**9,218**
− Gains less losses from trading in foreign currencies	1,762	3,562	2,061	249	(2,744)	4,890
− Foreign exchange translation losses less gains	-	-	-	-	2,993	2,993
− Net gain from derivative financial instruments	-	-	-	-	(462)	(462)
− Other operating income	-	-	-	-	3,892	3,892
− **Other operating non-interest income**	**1,762**	**3,562**	**2,061**	**249**	**3,679**	**11,313**
− Provision for loan impairment	(6,321)	(12,255)	(1,384)	308	-	(19,652)
− Provision for performance guarantees and credit related commitments	-	(6)	(89)	-	-	(95)
− Provision for impairment of investments in finance lease	-	-	-	-	(24)	(24)
− Provision for impairment of other financial assets	-	-	-	-	(370)	(370)
− Impairment of investment securities available for sale	-	-	-	-	(5)	(5)
− **Operating income after provisions for impairment**	**32,680**	**5,855**	**9,353**	**8,618**	**10,562**	**67,068**
− Staff costs	(11,099)	(1,946)	(2,153)	(3,433)	(7,117)	(25,748)
− Depreciation and amortisation	(3,171)	(204)	(532)	(527)	(1,071)	(5,505)
− Administrative and other operating expenses	(6,947)	(569)	(1,014)	(2,581)	(1,930)	(13,041)
− **Operating expenses**	**(21,217)**	**(2,719)**	**(3,699)**	**(6,541)**	**(10,118)**	**(44,294)**
− **Profit before tax**	**11,463**	**3,136**	**5,654**	**2,077**	**444**	**22,774**
− Income tax expense	(1,525)	(396)	(753)	(276)	(81)	**(3,031)**
− **Profit for the period**	**9,938**	**2,740**	**4,901**	**1,801**	**363**	**19,743**
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**

18 Segment Information (Continued)

In order to present the segment information for the three months ended 31 March 2013 on a consistent basis with the segment information for the three months ended 31 March 2014, inter-segment interest income/(expense) allocation was added to the above table. During 2013, the segment performance was assessed without considering the effect of inter-segment interest income/(expense) allocation.

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

In thousands of GEL	31 March 2014	31 December 2013
Total segment assets (gross loans and advances to customers)	2,921,139	2,958,581
Provision for loan impairment	(148,510)	(156,869)
Cash and cash equivalents	329,568	390,465
Mandatory cash balances with National Bank of Georgia	294,990	295,332
Due from other banks	2,619	1,708
Investment securities available for sale	568,865	500,651
Current income tax prepayment	4,858	6,202
Other financial assets	44,092	45,049
Investments in finance leases	38,548	35,613
Other assets	69,822	65,075
Premises and equipment	199,171	199,668
Intangible assets	26,672	23,491
Investment properties	83,331	83,383
Goodwill	2,726	2,726
Total assets per statement of financial position	**4,437,891**	**4,451,075**

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

In thousands of GEL	31 March 2014	31 December 2013
Total segment liabilities (customer accounts)	2,753,884	2,886,883
Due to Credit institutions	687,731	565,806
Debt securities in issue	4,517	4,474
Deferred income tax liability	27,882	27,814
Provisions for liabilities and charges	10,581	12,380
Other financial liabilities	30,619	24,850
Other liabilities	22,955	31,305
Subordinated debt	172,787	168,274
Total liabilities per statement of financial position	**3,710,956**	**3,721,786**

19 Interest Income and Expense

	Three months ended	
In thousands of GEL	**31 March 2014**	**31 March 2013**
Interest income		
Loans and advances to customers	112,012	107,895
Investment securities available for sale	7,263	7,385
Due from other banks	1,411	1,213
Investments in leases	2,081	1,657
Total interest income	**122,767**	**118,150**
Interest expense		
Customer accounts	27,345	38,337
Due to credit institutions	10,520	10,044
Subordinated debt	4,322	3,059
Other	160	27
Total interest expense	**42,347**	**51,467**
Net interest income	**80,420**	**66,683**

20 Fee and Commission Income and Expense

	Three months ended	
In thousands of GEL	**31 March 2014**	**31 March 2013**
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Card operations	7,005	7,530
- Settlement transactions	3,050	2,582
- Guarantees issued	1,670	1,423
- Issuance of letters of credit	1,644	1,030
- Cash transactions	1,167	1,032
- Foreign exchange operations	310	352
- Other	963	957
Total fee and commission income	**15,809**	**14,906**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Card operations	3,377	3,394
- Guarantees received	1,029	697
- Cash transactions	630	366
- Settlement transactions	454	429
- Foreign exchange operations	14	14
- Other	960	788
Total fee and commission expense	**6,464**	**5,688**
Net fee and commission income	**9,345**	**9,218**

21 Other Operating Income

	Three months ended	
In thousands of GEL	**31 March 2014**	**31 March 2013**
Revenues from pay-box terminal services	2,224	1,707
Revenues from operational leasing	1,579	497
Gain from sale of investment properties	310	508
Gain from expired liabilities related to customer loyalty programmes	281	-
Administrative fee income from international financial institutions	272	350
Revenues from plastic card processing	341	208
Gain from sale of inventories of repossessed collateral	215	249
Revenues from non-credit related fines	14	249
Gain on disposal of premises and equipment	6	-
Other	739	124
Total other operating income	**5,981**	**3,892**

Revenues from card processing operations and revenues from banking system services are included in section other of other operating income.

22 Administrative and Other Operating Expenses

	Three months ended	
In thousands of GEL	**31 March 2014**	**31 March 2013**
Professional services	3,686	569
Advertising and marketing services	2,683	2,425
Rent	2,867	2,799
Utility services	1,020	923
Intangible asset enhancement	919	971
Taxes other than on income	894	692
Communications and supply	775	722
Stationery and other office expenses	698	594
Insurance	442	378
Security services	369	396
Premises and equipment maintenance	338	506
Transportation and vehicle maintenance	278	290
Charity	249	199
Business trip expenses	199	133
Personnel training and recruitment	68	146
Write-down of current assets to fair value less costs to sell	10	70
Loss on disposal of investment properties	1	100
Loss on disposal of premises and equipment	-	32
Other	1,474	1,096
Total administrative and other operating expenses	**16,970**	**13,041**

23 Income Taxes

As at 31 March 2014, the statutory income tax rate applicable to the majority of the Group's income is 15% (three months ended 31 March 2013: 15%). Interim period income tax expense is recognized based on income tax rate expected for the full financial year which equalled 12.6% (three months ended 31 March 2013: 13.3%).

24 Contingencies and Commitments

Legal proceedings. The Bank is a defendant in a number of legal claims, including claim over the non-controlling stake in a significant subsidiary, JSC Bank Constanta, described below. However, on the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of the claims. Accordingly, no provision has been made in this financial information.

Dispute over non-controlling stake in JSC Bank Constanta. On 17 March 2014, a claim was filed against, among other defendants, TBC Bank. The claimant is requesting the annulment of a transaction through which TBC Bank acquired shares representing 67.5% ownership interest in JSC Bank Constanta in May 2011. As of 31 March 2014, the disputed shares comprised 38.8% of JSC Bank Constanta's total share capital. The management is of the view that the claim is groundless and plans to vigorously defend the case should current attempts to negotiate a commercially acceptable settlement prove unsuccessful.

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

Operating lease commitments. Where the Group is the lessee, as at 31 March 2014, the future minimum lease payments under non-cancellable operating leases over the next year amount to GEL 4,036 thousand (31 December 2013: 4,063 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 March 2014 and 31 December 2013.

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

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

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

24 Contingencies and Commitments (Continued)

Outstanding credit related commitments and performance guarantees are as follows:

In thousands of GEL	**31 March 2014**	**31 December 2013**
Performance guarantees issued	165,618	160,704
Financial guarantees issued	78,945	95,762
Undrawn credit lines	171,864	197,801
Letters of credit	118,228	133,603
Total credit related commitments and performance guarantees (before provision)	**534,655**	**587,870**
Provision for performance guarantees	(3,742)	(4,153)
Provision for credit related commitments and financial guarantees	(3,539)	(4,927)
Total credit related commitments and performance guarantees	**527,374**	**578,790**

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 March 2014 composed GEL 110,740 thousand (31 December 2013: GEL 131,342 thousand).

***Capital expenditure commitments*.** At 31 March 2014, the Group has contractual capital expenditure commitments amounting to GEL 1,972 thousand (31 December 2013: 2,365 thousand).

25 Financial and Other Risk Management

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

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

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

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

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

25 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 condensed consolidated interim 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 24. The subcategories of credit risk are: counterparty credit risk (the risk default or non-fulfilment of contracts due to a deterioration in the counterparty's credit quality); concentration risk (the risk of portfolio quality deterioration due to large exposures to small number of borrowers or individual industries); currency-induced credit risks (risks arising from foreign currency-denominated loans in the portfolio); and residual risks (resulting from the use of credit risk-mitigation techniques).

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

The credit risks are managed at the transaction and portfolio level. At the transaction level credit risk management includes: credit applications review, credit application rating 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 above GEL 2 million are additionally 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 Risk Management Department analyses trends of the portfolio on a monthly basis, including total credit portfolio exposure, concentrations, maturities, volumes and performance of non-performing loans, write-offs and recoveries, and presents its findings to the Management Board. Furthermore, reports relating to the credit quality of the credit portfolio, compliance with risk appetite limits, TBC Bank's related and connected party exposures, results of stress tests are presented to the Supervisory Board and Risk Ethics and Compliance Committee on a quarterly basis. The Bank's Credit Risk Management Department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of 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.

25 Financial and Other Risk Management (Continued)

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

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	196,818	67,483	65,267	**329,568**
Due from other banks	612	2,007	-	**2,619**
Mandatory cash balances with National Bank of Georgia	294,990	-	-	**294,990**
Loans and advances to customers	2,672,487	31,680	68,462	**2,772,629**
Investment securities available for sale	564,124	4,741	-	**568,865**
Investments in leases	38,548	-	-	**38,548**
Other financial assets	44,014	78	-	**44,092**
Total financial assets	**3,811,593**	**105,989**	**133,729**	**4,051,311**
Non-financial assets	**385,144**	**27**	**1,409**	**386,580**
Total assets	**4,196,737**	**106,016**	**135,138**	**4,437,891**
Liabilities				
Due to credit institutions	268,779	363,410	55,542	**687,731**
Customer accounts	2,415,051	300,989	37,844	**2,753,884**
Debt securities in issue	-	-	4,517	**4,517**
Other financial liabilities	25,510	5,026	83	**30,619**
Subordinated debt	-	172,787	-	**172,787**
Total financial liabilities	**2,709,340**	**842,212**	**97,986**	**3,649,538**
Non-financial liabilities	**59,839**	**95**	**1,484**	**61,418**
Total liabilities	**2,769,179**	**842,307**	**99,470**	**3,710,956**
Net balance sheet position	**1,427,558**	**(736,291)**	**35,668**	**726,935**
Performance guarantees	**161,876**	**-**	**-**	**161,876**
Credit related commitments	**365,498**	**-**	**-**	**365,498**

25 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**

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 March 2014, the Bank maintained a balance sheet (negative) open foreign currency position of 8% of regulatory capital (31 December 2013: negative 0.6%) and an aggregate (negative) open currency position of 8.4% of regulatory capital (31 December 2013: negative 0.79%). 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.

25 Financial and Other Risk Management (Continued)

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

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

	At 31 March 2014				At 31 December 2013			
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	1,566,711	1,058,061	(41,388)	**467,262**	1,438,492	994,150	(31,569)	**412,773**
US Dollars	2,251,504	2,263,921	(76,391)	**(88,808)**	2,374,574	2,333,144	(60,192)	**(18,762)**
Euros	195,689	297,335	98,405	**(3,241)**	217,267	294,734	76,450	**(1,017)**
Other	37,143	30,221	19,078	**26,000**	38,917	28,259	16,532	**27,190**
Total	**4,051,047**	**3,649,538**	**(296)**	**401,213**	**4,069,250**	**3,650,287**	**1,221**	**420,184**

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 three months ended 31 March 2014 and year ended 31 December 2013, sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	**31 March 2014**	**31 December 2013**
Maximum loss (VAR, 99% confidence level)	(2,539)	(589)
Maximum loss (VAR,95% confidence level)	(1,809)	(413)

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. 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.

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.

25 Financial and Other Risk Management (Continued)

In thousands of GEL	Less than 1 year	More than 1 year	Total
31 March 2014			
Total financial assets	2,037,181	2,056,865	**4,094,046**
Total financial liabilities	2,487,680	1,204,593	**3,692,273**
Net interest sensitivity gap at 31 March 2014	**(450,499)**	**852,272**	**401,773**
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**

At 31 March 2014, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the period would have been GEL 2,300 thousand (31 March 2013: GEL 1,292 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities. Other comprehensive income would have been GEL 5,284 thousand (31 December 2013: GEL 5,093 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 2,300 thousand (31 March 2013: GEL 1,292 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities. Other comprehensive income would have been GEL 5,099 thousand (31 December 2013: GEL 4,926 thousand) lower, as a result of decrease in the fair value of fixed rate financial assets classified as available for sale.

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

The Bank calculates impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a 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.

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.

25 Financial and other Risk Management (Continued)

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.

		31 March 2014	**31 December 2013**
Net Stable Funding Ratio		**116.3%**	**118.6%**
In thousands of GEL	**Factor**	**Amount**	
Available stable funding		**3,347,953**	**3,410,696**
Capital: Tier 1 & Tier 2 Capital Instruments		**896,396**	**898,278**
Tier 1	100%	681,783	675,723
Tier 2	100%	214,613	222,555
Long Term Funding (year >= 1)		**381,725**	**387,814**
Long Term Borrowings (>=1 year)	100%	306,213	319,244
Subordinated debt not included in Tier 2	100%	35,108	34,314
Other funding (>=1 year)	100%	40,404	34,256
Other Funding		**2,069,832**	**2,124,604**
Total Corporate deposits	50%	336,110	409,769
Total SME deposits	80%	345,732	365,335
Total Retail deposits	80%	1,319,599	1,288,541
Short term Borrowings with remaining maturity (<1year)	50%	65,638	59,635
Subordinated Debt (<1 year)	50%	2,753	1,324
Required amount of stable funding		**2,879,013**	**2,874,587**
Long term Assets with remaining maturity >=1 year		**2,294,436**	**2,293,969**
Reserves in NGB (Stable part)	100%	280,380	273,267
Loans (>=1 year)	100%	1,765,231	1,775,280
Fixed and Intangible Assets(>=1 year)	100%	225,843	223,159
Other assets (>=1 year)	100%	22,982	22,263
Short term Assets with remaining maturity <1 year		**558,209**	**551,225**
Loans (< 1 year)	50%	558,209	551,225
Undrawn amount of committed credit and liquidity facilities		**26,368**	**29,393**
Unused credit lines and undisbursed amounts from loans	5%	8,593	9,890
Guarantees	5%	17,775	19,503

25 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 106.1% and 102.5%, at the 31 March 2014 and 31 December 2013 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 March 2014 the ratios were well above the prudential limit set by the NBG as follows:

	31 March 2014	**31 December 2013**
Average Liquidity Ratio	32.1%	34.0%

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 March 2014 based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

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	299,613	95,712	309,466	38,453	**743,244**
Customer accounts – individuals	918,146	625,847	135,598	15,540	**1,695,131**
Customer accounts – other	882,430	143,289	73,363	20,288	**1,119,370**
Other financial liabilities	30,597	22	-	-	**30,619**
Subordinated debt	6,556	9,430	161,152	77,064	**254,202**
Gross settled forwards	158,594	5,079	-	-	**163,673**
Performance guarantees	23,089	94,129	49,590	1,837	**168,645**
Financial guarantees	104,520	76,628	20,659	12	**201,819**
Other credit related commitments	171,864	-	-	-	**171,864**
Total potential future payments for financial obligations	**2,595,409**	**1,050,136**	**749,828**	**153,194**	**4,548,567**

25 Financial and Other Risk Management (Continued)

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

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

The 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.

25 Financial and Other Risk Management (Continued)

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

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	329,568	-	-	**329,568**
Due from other banks	16	-	2,603	**2,619**
Mandatory cash balances with National Bank of Georgia	294,990			**294,990**
Loans and advances to customers	446,543	626,411	1,699,675	**2,772,629**
Investment securities available for sale	568,865	-	-	**568,865**
Finance lease receivables	7,313	12,507	18,728	**38,548**
Other financial assets	21,417	5,022	17,653	**44,092**
Total financial assets	**1,668,712**	**643,940**	**1,738,659**	**4,051,311**
Liabilities				
Due to Credit institutions	294,898	80,765	312,068	**687,731**
Customer accounts	236,015	-	2,517,869	**2,753,884**
Debt securities in issue	4,517	-	-	**4,517**
Other financial liabilities	30,597	22	-	**30,619**
Subordinated debt	5,133	372	167,282	**172,787**
Total financial liabilities	**571,160**	**81,159**	**2,997,219**	**3,649,538**
Credit related commitments and performance guarantees				
Performance guarantees	3,742	-	-	**3,742**
Financial guarantees	3,539	-	-	**3,539**
Other credit related commitments	29,584	-	-	**29,584**
Credit related commitments and performance guarantees	**36,865**	**-**	**-**	**36,865**
Net liquidity gap at 31 March 2014	**1,060,687**	**562,781**	**(1,258,560)**	**364,908**
Cumulative gap at 31 March 2014	**1,060,687**	**1,623,468**	**364,908**	

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

25 Financial and Other Risk Management (Continued)

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

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

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.

25 Financial and Other Risk Management (Continued)

Operating environment. Most of the Group's business is concentrated in Georgia. Emerging economies, such as the Georgian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has changed number of civil, criminal, tax, administrative and commercial laws that have positively affected the overall investment climate of the country. Georgia has an international reputation as a country with a favorable investment environment. For example, in the "Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises" report published by the IFC and the World Bank, Georgia was ranked as the eighth (out of 189) easiest country in the world in which to do business, ahead of all its neighboring countries and many EU Member States. Moreover, according to the World Bank & IFC Doing Business Report 2014, Georgia was ranked as the number two reformer in the world. Georgia is also acknowledged to have low corruption levels as demonstrated by the Transparency International 2013 Global Corruption Barometer.

26 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 internally and externally imposed capital requirements throughout three months periods ended 31 March 2014 and 31 March 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	**31 March 2014**	**31 December 2013**
Share capital	264,201	261,045
Retained earnings and other disclosed reserves	284,726	290,585
General loan loss provisions (up to 1.25 % of risk – weighted assets)	50,203	51,038
Less intangible assets	(21,552)	(18,197)
Less Investments into subsidiary companies and capital of other banks	(61,750)	(59,129)
Subordinated debt (included in regulatory capital)	132,174	131,312
Total regulatory capital	**648,002**	**656,654**
Risk-weighted Exposures		
Credit risk weighted assets (including off-balance obligations)	3,331,539	3,340,518
Currency Induced Credit Risk	1,296,275	1,321,561
minus general and special reserves	(173,359)	(166,377)
Risk-weighted assets	**4,454,455**	**4,495,702**
Tier 1 Capital adequacy ratio	**11.4%**	**10.6%**
Total Capital adequacy ratio	**14.5%**	**14.6%**

26 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 31 March 2014 and 31 December 2013 are given in the tables below:

In thousands of GEL	31 March 2014	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	1,186,161	166,676
Gross Loans and accrued interests	2,676,088	3,807,107
Repossessed Assets	73,120	73,120
Fixed Assets and intangible assets	205,174	183,622
Other assets	144,283	108,640
Total	**4,284,826**	**4,339,165**
Total Off-balance	**594,693**	**288,649**
minus general and special reserves	(173,359)	(173,359)
Total Amount	**4,706,160**	**4,454,455**

In thousands of GEL	31 December 2013	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	1,170,286	158,730
Gross Loans and accrued interests	2,713,271	3,829,318
Repossessed Assets	69,143	69,143
Fixed Assets and intangible assets	202,902	184,705
Other assets	143,487	92,255
Total	**4,299,089**	**4,334,151**
Total Off-balance	**615,670**	**327,928**
minus general and special reserves	(166,377)	(166,377)
Total Amount	**4,748,382**	**4,495,702**

26 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	**31 March 2014**	**31 December 2013**
Tier 1 Capital	518,293	526,224
Tier 2 Capital	177,977	177,950
Regulatory capital	**696,270**	**704,174**
Risk-weighted Exposures		
Credit Risk Weighted Exposures	4,448,160	4,553,155
Risk Weighted Exposures for Market Risk	41,975	3,946
Risk Weighted Exposures for Operational Risk	390,378	343,892
Total Risk-weighted Exposures	**4,880,513**	**4,900,993**
Minimum Tier 1 ratio	**8.5%**	**8.5%**
Tier 1 Capital adequacy ratio	**10.6%**	**10.7%**
Minimum total capital adequacy ratio	**10.5%**	**10.5%**
Total Capital adequacy ratio	**14.3%**	**14.4%**

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 31 March 2014 and 31 December 2013 are given in the tables below:

	31 March 2014	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	1,287,769	465,241
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	2,561,697	3,249,507
Repossessed Assets	73,120	73,120
Fixed Assets and intangible assets	226,727	201,672
Other assets	123,256	214,598
minus general provision, penalty and interest provision	(26,733)	(26,733)
Total	**4,245,836**	**4,177,405**
Total Off-balance	**659,604**	**270,755**
Market Risk	**55,092**	**41,975**
Operational Risk	**273,265**	**390,378**
Total Amount	**5,233,797**	**4,880,513**

	31 December 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**

26 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	**31 March 2014**	**31 December 2013**
Tier 1 capital		
Share capital	257,730	259,123
Retained earnings and disclosed reserves	413,593	404,659
Less: Goodwill	(2,726)	(2,726)
Non-controlling interest	13,186	14,667
Total tier 1 capital	**681,783**	**675,723**
Tier 2 capital		
Revaluation reserves	42,426	50,840
General Reserve	40,013	40,403
Subordinated debt (included in tier 2 capital)	132,174	131,312
Total tier 2 capital	**214,613**	**222,555**
Total capital	**896,396**	**898,278**
Credit risk weighted assets (including off-balance obligations)	3,201,072	3,232,229
Less: General Reserve	(108,497)	(116,466)
Market Risk	96,539	19,779
Total Risk-weighted assets	**3,189,114**	**3,135,542**
Minimum Tier 1 ratio	**4.0%**	**4%**
Tier 1 Capital adequacy ratio	**21.4%**	**21.6%**
Minimum total capital adequacy ratio	**8.0%**	**8%**
Total Capital adequacy ratio	**28.1%**	**28.6%**

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)

26 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 31 March 2014 and 31 December 2013 are given in the tables below:

In thousands of GEL	**31 March 2014**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,196,042	42,484
Gross loans and accrued interests	2,921,139	2,410,192
Repossessed assets	53,925	53,925
Fixed assets and intangible assets	228,569	225,843
Other assets	186,726	186,726
Total	**4,586,401**	**2,919,170**
Total Off-balance	**646,189**	**281,902**
Less: Loan loss provision minus General Reserve	(108,497)	(108,497)
Market Risk	**96,539**	**96,539**
Total Amount	**5,220,632**	**3,189,114**

In thousands of GEL	**31 December 2013**	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,188,156	38,613
Gross loans and accrued interests	2,958,581	2,419,822
Repossessed assets	49,920	49,920
Fixed assets and intangible assets	225,885	223,159
Other assets	185,402	185,403
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**

27 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 March 2014				31 December 2013			
In thousands of GEL	**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	-	354,395	-	**354,395**	-	321,140	-	**321,140**
- Ministry of Finance Treasury Bills	-	1,730	-	**1,730**	-	-	-	**-**
- Government notes	-	179,252	-	**179,252**	-	173,974	-	**173,974**
- Corporate Bonds (EBRD)	-	25,055	-	**25,055**	-	-	-	**-**
- Corporate shares (Visa Inc)	4,741	-	-	**4,741**	4,858	-	-	**4,858**
Foreign exchange forwards and gross settled currency swaps, included in other financial assets and due from banks	-	263	-	**263**	-	1,221	-	**1,221**
NON-FINANCIAL ASSETS								
- Premises and leasehold improvements	-	-	138,598	**138,598**	-	-	138,939	**138,939**
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**4,741**	**560,695**	**138,598**	**704,034**	**4,858**	**496,335**	**138,939**	**640,132**
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
- Interest rate swap, included in other financial liabilities	-	4,656	-	**4,656**	-	4,405	-	**4,405**
- Foreign exchange forwards included in other financial liabilities	-	559	-	**559**	-	-	-	**-**
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	-	**5,215**	**-**	**5,215**	-	**4,405**	**-**	**4,405**

There were no transfers between levels 1 and 2 during three months ended 31 March 2014 (2013: None).

27 Fair Value Disclosures (Continued)

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

	Fair value at			
In thousands of GEL	**31 March 2014**	**31 December 2013**	**Valuation technique**	**Inputs used**
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, corporate bonds	560,432	495,114	Discounted cash flows ("DCF")	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	263	1,221	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**560,695**	**496,335**		
LIABILITIES CARRIED AT FAIR VALUE				
FINANCIAL LIABILITIES				
Other financial liabilities				
- Interest rate swaps	4,656	4,405	Swap model using present value calculations	Observable yield curves
- Foreign exchange forwards included in other financial liabilities	559	-	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**5,215**	**4,405**		

There were no changes in valuation technique for level 2 and level 3 recurring fair value measurements during the three months period ended 31 March 2014 (three months period ended 31 March 2013: None).

For description of the techniques and inputs used for Level 3 recurring fair value measurement of (as well as reconciliation of movements in) premises refer to Note 10. The unobservable input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value.

27 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 March 2014				31 December 2013			
In thousands of GEL	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3	Carrying Value
FINANCIAL ASSETS								
Cash and cash equivalents	329,568	-	-	329,568	390,465	-	-	390,465
Due from other banks	-	2,619	-	2,619	-	1,708	-	1,708
Mandatory cash balances with the NBG	-	294,990	-	294,990	-	295,332	-	295,332
Loans and advances to customers:								
- Corporate loans	-	-	1,061,567	955,810	-	-	1,172,503	1,049,668
- Consumer loans	-	-	602,429	570,628	-	-	607,940	571,730
- Mortgage loans	-	-	543,267	519,054	-	-	519,180	491,136
- Small and micro loans	-	-	408,681	399,838	-	-	397,229	388,131
- Micro	-	-	208,353	212,738	-	-	193,784	196,395
- Others	-	-	113,732	114,561	-	-	103,896	104,652
Investments in leases	-	-	38,548	38,548	-	-	35,613	35,613
Other financial assets	-	-	44,092	44,092	-	-	45,049	45,049
NON-FINANCIAL ASSETS								
Investment properties, at cost	-	-	86,278	83,331	-	-	86,480	83,383
TOTAL ASSETS	**329,568**	**297,609**	**3,106,947**	**3,565,777**	**390,465**	**297,040**	**3,161,674**	**3,653,262**
FINANCIAL LIABILITIES								
Due to credit institutions	-	687,731	-	687,731	-	565,806	-	565,806
Customer accounts	-	1,469,103	1,291,323	2,753,884	-	1,690,812	1,206,300	2,886,883
Debt securities in issue	-	4,517	-	4,517	-	4,474	-	4,474
Other financial liabilities	-	25,404	-	25,404	-	20,445	-	20,445
Subordinated debt	-	172,787	-	172,787	-	168,274	-	168,274
TOTAL LIABILITIES	**-**	**2,359,542**	**1,291,323**	**3,644,323**	**-**	**2,449,811**	**1,206,300**	**3,645,882**

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.

When preparing this condensed interim financial information, the management has reconsidered the significance of non-observable inputs used in the fair valuation of (a) investments in leases, (b) other financial assets and (c) investment properties. Consequently, it was concluded that these items should be presented in Level 3 of the fair value hierarchy as of 31 March 2014 and 31 December 2013 in the above table.

28 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.

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

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)	4,645	961
Impairment provisions for loans and advances to customers	85	10
Derivative financial liability	4,656	-
Due to credit institutions (contractual interest rate: 0 - 13 %)	65,157	-
Customer accounts (contractual interest rate: 0 - 13 %)	7,811	4,711
Subordinated debt (contractual interest rate: 5 - 11.3 %)	97,654	-

The income and expense items with related parties for the three months ended 31 March 2014 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Interest income	204	33
Interest expense	3,543	56
Gains less losses from trading in foreign currencies	42	13
Foreign exchange translation gains less losses	35	7
Fee and commission income	2	3
Fee and commission expense	223	-
Administrative and other operating expenses	15	7
Net gain on derivative financial instruments	177	-

At 31 March 2014, other rights and obligations with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Guarantees issued by the Group at the period end	-	58

Aggregate amounts of loans advanced to and repaid by related parties during the three months ended 31 March 2014 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the period	180	776
Amounts repaid by related parties during the period	(5,702)	(1,167)

28 Related Party Transactions (Continued)

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

In thousands of GEL	**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	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 - 11.3 %)	95,458	-

The income and expense items with related parties for the three month ended 31 March 2013 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Interest income	385	47
Interest expense	4,071	92
Gains less losses from trading in foreign currencies	17	2
Foreign exchange translation gains less losses	9	5
Fee and commission income	2	1
Fee and commission expense	276	-
Administrative and other operating expenses	5	9
Net loss on derivative financial instruments	(462)	-

Aggregate amounts of loans advanced to and repaid by related parties during the three months ended 31 March 2013 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the period	1,258	136
Amounts repaid by related parties during the period	(4,704)	(590)

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

	Expense over the three months ended		**Accrued liability as of**	
In thousands of GEL	**31 March 2014**	**31 March 2013**	**31 March 2014**	**31 December 2013**
Salaries and bonuses	2,211	2,060	873	3,798
Cash settled bonuses related to share-based compensation	126	423	126	1,692
Equity-settled share-based compensation	515	418	-	-
Total	**2,852**	**2,901**	**999**	**5,490**