CARTU BANK GROUP

Consolidated Financial Statements
For the Year Ended December 31, 2012

CARTU BANK GROUP

TABLE OF CONTENTS

CARTU BANK GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Closed Joint Stock Company Cartu Bank (the "Bank") and its subsidiaries (the "Group") as at December 31, 2012, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with Georgian legislation and accounting standards of Georgia;
- Taking such steps that are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended December 31, 2012 were authorized for issue on April 23, 2013 by the Management Board of the Group.

On behalf of the Management Board:

General Director	**Chief Accountant**
Nodar Javakhishvili	**Manana Nadiradze**
April 23, 2013	April 23, 2013
Tbilisi, Georgia	*Tbilisi, Georgia*

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Joint Stock Company Cartu Bank:

Report on the financial statements

We have audited the accompanying financial statements of JSC Cartu Bank (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of profit or loss, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2012, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

April 23, 2013
Tbilisi, Georgia

CARTU BANK GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2012
(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2012	Year ended December 31, 2011
Interest income	4, 26	37,912	65,165
Interest expense	4, 26	(8,609)	(25,803)
NET INTEREST INCOME BEFORE RECOVERY OF PROVISION /(PROVISION) FOR IMPAIRMENT LOSSES ON INTEREST BEARING FINANCIAL ASSETS		29,303	39,362
Recovery of provision/(provision) for impairment losses on interest bearing assets	5, 26	2,907	(106,249)
NET INTEREST INCOME/(LOSS)		32,210	(66,887)
Net (loss)/gain on financial assets at fair value through profit or loss	6	(1,085)	1,543
Net gain on foreign exchange operations	7	2,309	2,897
Fee and commission income	8, 26	3,286	4,496
Fee and commission expense	8	(2,456)	(2,750)
Recovery of provision for guarantees and other operations	5	56	727
Other (expense)/income	9	(1,123)	2,570
NET NON-INTEREST INCOME		987	9,483
OPERATING INCOME/(LOSS)		33,197	(57,404)
OPERATING EXPENSES	10, 26	(17,839)	(17,838)
PROFIT/(LOSS) BEFORE INCOME TAX		15,358	(75,242)
Income tax (expense)/benefit	11	(2,338)	11,441
TOTAL COMPREHENSIVE INCOME/(LOSS)		13,020	(63,801)
Attributable to:			
Owners of the parent		13,820	(64,191)
Non-controlling interest		(800)	390
		13,020	(63,801)

On behalf of the Management Board:

General Director
Nodar Javakhishvili

April 23, 2013
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

April 23, 2013
Tbilisi, Georgia

The notes on pages 9-53 form an integral part of these consolidated financial statements.

CARTU BANK GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012
(in thousands of Georgian Lari)

	Notes	December 31, 2012	December 31, 2011
ASSETS:			
Cash and balances with the National Bank of Georgia	12	16,690	26,789
Financial assets at fair value through profit or loss	13	10,845	15,479
Due from banks	14	68,940	27,601
Loans to customers	15, 26	262,148	256,152
Investments available-for-sale		391	322
Investments held to maturity	16	-	6,414
Property and equipment	17	11,950	12,961
Current income tax assets		636	620
Deferred income tax assets	11	9,429	11,767
Other assets	18	36,470	30,147
TOTAL ASSETS		**417,499**	**388,252**
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits by Banks	19	7,614	25,998
Customer accounts	20, 26	66,623	77,306
Other borrowed funds	23	40,040	-
Provisions	5, 26	328	384
Other liabilities	21	2,743	2,130
Subordinated debt	22, 26	120,013	126,970
Total liabilities		237,361	232,788
EQUITY:			
Equity attributable to owners of the parent:			
Share capital	24	92,850	81,196
Additional paid in capital		24,816	24,816
Retained earnings		61,834	48,014
Total equity attributable to owners of the parent		179,500	154,026
Non-controlling interest		638	1,438
Total equity		180,138	155,464
TOTAL LIABILITIES AND EQUITY		**417,499**	**388,252**

On behalf of the Management Board:

General Director
Nodar Javakhishvili

April 23, 2013
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

April 23, 2013
Tbilisi, Georgia

The notes on pages 9-53 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

(in thousands of Georgian Lari)

	Notes	Share capital	Additional paid in capital	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
January 1, 2011		54,716	3,817	112,205	170,738	1,048	171,786
Issue of share	24	26,480	-	-	26,480	-	26,480
Initial recognition effect of subordinated debt issued	22	-	20,999	-	20,999	-	20,999
Total comprehensive loss for the year		-	-	(64,191)	(64,191)	390	(63,801)
December 31, 2011		**81,196**	**24,816**	**48,014**	**154,026**	**1,438**	**155,464**
Issue of share	24	11,654	-	-	11,654	-	11,654
Total comprehensive income for the year		-	-	13,820	13,820	(800)	13,020
December 31, 2012		**92,850**	**24,816**	**61,834**	**179,500**	**638**	**180,138**

On behalf of the Management Board:

General Director
Nodar Javakhishvili

April 23, 2013
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

April 23, 2013
Tbilisi, Georgia

The notes on pages 9-53 form an integral part of these consolidated financial statements.

CARTU BANK GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2012	Year ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/loss before income tax:		15,358	(75,242)
Adjustments for:			
(Recovery of provision) / Provision for impairment losses on interest bearing assets		(2,907)	106,249
Provision for other assets		1,364	-
Recovery of provision for guarantees and other operations		(56)	(727)
Loss/(gain) on foreign exchange operations		(209)	2,068
Depreciation and amortization expense		1,527	1,479
Change in interest accruals, net		398	(6,268)
Gain on disposal of repossessed and fixed assets		(220)	-
Net (gain)/loss on operations with financial assets designed at fair value through profit or loss		1,085	(1,543)
Cash inflow from operating activities before changes in operating assets and liabilities		16,340	26,016
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the National Bank of Georgia		4,459	(6,285)
Due from banks		(6,069)	32
Loans to customers		(4,007)	51,639
Other assets		(2,504)	(1,760)
Increase/(decrease) in operating liabilities:			
Deposits by banks		(18,384)	(40,705)
Customer accounts		(10,559)	(7,415)
Other liabilities		581	484
Cash inflow from operating activities before taxation		(20,143)	22,006
Income tax paid		-	(3,253)
Net cash inflow from operating activities		(20,143)	18,753
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for property and equipment, and intangible assets		(1,386)	(1,424)
Proceeds on disposal of property and equipment and intangible assets		196	395
Proceeds on investments at fair value through profit or loss		4,634	26,445
Payments for investments at fair value through profit or loss		-	(39,023)
Proceeds from sale of repossessed assets		518	-
Purchase of repossessed assets		(3,453)	(11,858)
Purchase of investments available-for-sale		(69)	(77)
Proceeds on disposal of investments held to maturity		6,414	11,733
Net cash inflow (outflow) from investing activities		6,854	(13,809)

(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2012	Year ended December 31, 2011
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of share		11,654	26,480
Proceeds from subordinated debt		-	71,828
Repayment of subordinated debt		(6,956)	(165,995)
Other borrowed funds		40,000	-
Net cash (outflow)/inflow from financing activities		44,698	(67,687)
Effect of exchange rate changes on the balance of cash held in foreign currencies		(1,779)	(902)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		31,409	(63,645)
CASH AND CASH EQUIVALENTS, beginning of the year	12	43,510	107,155
CASH AND CASH EQUIVALENTS, end of the year	12	73,140	43,510

Interest paid and received by the Group during the year ended December 31, 2012 amounted to GEL 9,103 thousand and GEL 28,455 thousand, respectively.

Interest paid and received by the Group during the year ended December 31, 2011 amounted to GEL 26,171 thousand and GEL 59,265 thousand, respectively.

On behalf of the Management Board:

General Director
Nodar Javakhishvili

April 23, 2013
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

April 23, 2013
Tbilisi, Georgia

The notes on pages 9-53 form an integral part of these consolidated financial statements

(in thousands of Georgian Lari)

1. ORGANIZATION

Closed Joint Stock Company Cartu Bank (the "Bank") is a joint-stock bank, which was incorporated in Georgia in 1996. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under general license number 229. The Bank's primary business consists of commercial activities, originating loans and guarantees, trading with securities, foreign currencies and taking deposits.

The registered office of the Bank is located on 39a Chavchavadze Avenue, Tbilisi, Georgia.

As at December 31, 2012 the Bank has two branches and four service centers operating in Tbilisi, one service center in Gori, one service center in Telavi, one service center in Sachkhere and branches in Kutaisi and Batumi.

The Bank is a parent company of a banking group (the "Group"), which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	Ownership interest (%) 2012	Ownership interest (%) 2011	Type of operation
Cartu Broker LLC	Georgia	100%	100%	Brokerage
CMC JSC	Georgia	100%	100%	Real Estate Operations
Insurance Company Cartu LLC	Georgia	69%	69%	Insurance

Insurance Company Cartu LLC was formed as a limited liability company under the laws of Georgia on September 13, 2001. The company's principal activity is insurance, which is mainly health insurance.

As at December 31, 2012 and 2011 Cartu Group owned 100% of the Bank's shares.

Ultimate individual shareholders having control over the Groups operations are as following:

	December 31, 2012, %	December 31, 2011, %
Shareholder/ Holders of the issued share capital		
First level shareholders/holders of the issued share capital:		
JSC Argo-Service	4.22%	
JSC Inter-Invest	1.41%	
Tarpan Management Limited	1.06%	
Krista Investment Limited	0.56%	
Sargans Limited	1.00%	
Sanworth Holding Limited	7.00%	
Benefield Investments Limited	7.00%	
Charwood Finance Limited	7.55%	
Drawfield Investments Limited	9.00%	
Ropwind Investments Limited	9.05%	
Breckland Holdings Limited	9.00%	
Allerdale Investments Limited	9.05%	
Laveney Holdings Limited	8.00%	
Padbury Holdings Limited	8.50%	
Felwey Holdings Limited	8.76%	
Marsten Holdings Limited	8.84%	
Total	**100.00%**	

Ultimate controlling parties: (*most likely individuals)* [1]

Uta Ivanishvili	8.25%	
Cleo Vasiliou	7.00%	
Maria Kataliakou	7.00%	
Karolina Mannouri	7.55%	
Dimitrios Kyriakou	9.00%	
Marina Jinjikashvili	9.05%	
Vorstelman Gaillaume	9.00%	
Kuusmik Hannes	9.05%	
Rigena Charalambous Fotiou	8.00%	
Eleni Laou	8.50%	
Eleni Anastasiou	8.76%	
Maria Mylona	8.84%	
Total	**100.00%**	

These consolidated financial statements were authorized for issue on March 26, 2013 by the Management Board of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Other basis of presentation criteria

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue its operations for the foreseeable future. The management and shareholders have the intention to further develop the business of the Group in Georgia both in corporate and retail segments. The Group's management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis, except for the measurement at fair value of certain financial instruments, and the measurement at revalued amounts of repossessed assets as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non–current) is presented in Note 28.

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the parent of the Group is the Georgian Lari ("GEL"). The presentational currency of the consolidated financial statements of the Group is the GEL. All values are rounded to the nearest thousand GEL, except when otherwise indicated.

Offseting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the consolidated statement of profit or

[1] % of ownership is not required by the standards, but is desirable to be presented

loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entity controlled by the Bank (its subsidiary) made up to December 31 each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Recognition of interest income and expense

Interest income and expense are recognised on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in profit or loss on expiry.

All other commissions are recognised when services are provided.

Financial instruments

The Group recognises financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ('FVTPL'), investments 'held to maturity', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the consolidated statement of profit or loss.

Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Investments held-to-maturity are measured at amortized cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of investments held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) investments held-to-maturity or (c) financial assets at fair value through profit or loss.

The Group has investment in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of
the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investment that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and receivables

Loans and receivables are written off against the allowance for impairment losses when deemed uncollectible. Loans and receivables are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain of loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Compound instruments

The components parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual agreement. At the date of issue, the fair value of the liability component is estimated using prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

Financial liabilities

Financial liabilities are classified as ‘other financial liabilities’.

Other financial liabilities

Other financial liabilities (including depository instruments by banks and customers, other borrowed funds, subordinated debt and other financial liabilities) are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and
- The amount initially recognised less, where appropriate, cumulative amortization recognised in accordance with the revenue recognition policies.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the National Bank of Georgia with original maturity of less or equal to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Minimum reserve deposits with the National Bank of Georgia

Minimum reserve deposits with the National Bank of Georgia represent the amount of obligatory reserves deposited with the National Bank of Georgia in accordance with requirements established by the National Bank of Georgia, which subject to restrictions on their availability. In view of the above the amount of the minimum reserve deposit required by the National Bank of Georgia is not included as a cash equivalent.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Repossessed assets representing land and buildings are measured at revalued amounts. The date of the latest appraisal was December 31, 2012. The carrying value of revalued repossessed assets amounted to GEL 26,859 thousand and GEL 25,166 thousand as at December 31, 2012 and 2011, respectively.

Property and equipment

Initial cost of property and equipment is assessed based on actual expenses for their acquisition that comprise purchase price, including non-refundable purchase taxes and any directly attributed costs of bringing the assets to its working condition and location for intended use. Subsequent to initial recognition property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and construction in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings and other real estate	2%
Furniture and office fixtures	20%
Computer and office equipment	20%
Other	14%-17%
Intangible assets	10%

Freehold land is not depreciated.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Assets classified as held for sale

The Group classifies a non-current assets (or disposal group) as held for sale if its carrying amount will be recovered principally trough a sale of transaction rather than though continuing use. For this to be the case the non-current assets (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal group) and its sale must be highly probable.

The sale qualifies are highly probable if the Group's management is committed to a plan to sell the non-current assets (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current assets (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a complete sale within one year form the date of classification of the non-current assets (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less cost to sell. The Group recognises an impairment loss for the any initial or subsequent write-down of the asset (or disposal group) to fair value less cost to sell if the events or changes in circumstance indicate that their carrying amount may be impaired.

Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated property and equipment, due from banks, loans to customers, provisions, other assets and other liabilities except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with other assets and liabilities are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Group management reviewed the Group’s investment property portfolios and concluded that none of the Group’s investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the Group management has determined that the ‘sale’ presumption set out in the amendments to IAS 12 Income Taxes is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Operating taxes

Georgia also has various other taxes, which are assessed on the Group’s activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Foreign currencies

In preparing the consolidated financial statements of the Group, transactions in currencies other than the Group's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	December 31, 2012	**December 31, 2011**
GEL/1 US Dollar	1.6567	1.6703
GEL/1 Euro	2.1825	2.1614

Collateral

The Group obtains collateral in respect of customer liabilities where it is considered appropriate. The collateral normally takes the form of a lien over the customer’s assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of IAS 39, “Financial Instruments: Recognition and Measurement” are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group’s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36, “Impairment of Assets” as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36, “Impairment of Assets” to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group’s accounting policies, which are described in Note 2, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Financial assets held to maturity

The directors have reviewed the Group’s held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Group’s positive intention and ability to hold those assets to maturity. As at December 31, 2012 and 2011 the carrying amounts of the financial assets held to maturity are GEL zero and GEL 6,414 thousand, respectively. Details of these assets are set out in Note 16.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group’s loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group’s estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management’s judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and 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 group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Georgia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at December 31, 2012 and 2011 the gross loans to customers totaled GEL 282,485 thousand and GEL 388,899 thousand, respectively, and allowance for impairment losses amounted to GEL 18,697 thousand and GEL 132,747 thousand, respectively.

Valuation of financial instruments

As described in Note 26, the Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 26 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Useful lives of property and equipment

Items of property and equipment are stated at historical cost less accumulated depreciation and less any accumulated impairment losses. The estimation of the useful life of an item of property and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, the management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any one of these conditions or estimates may result in adjustments to future depreciation rates.

Recoverability of deferred tax assets

The management of the Bank is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely that the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to GEL 9,047 thousand and 11,767 as at December 31, 2012 and 2011, respectively.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

3.1 Amendments to IFRSs affecting amounts reported in the financial statements

The following amendments to IFRSs have been applied in the current year and have affected the amounts reported in these financial statements.

Amendments to IFRSs affecting presentation and disclosure only

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

The Group has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income in advance of the effective date (annual periods beginning on or after July 1, 2012). The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1 Presentation of Items of Other Comprehensive Income, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 Presentation of Items of Other Comprehensive Income retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 Presentation of Items of Other Comprehensive Income does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 1 *Presentation of Financial Statements*
(as part of the Annual improvements to IFRSs 2009-2011 Cycle issued in May 2012)

The Group has applied the amendments to IAS 1 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* in advance of the effective date (annual periods beginning on or after January 1, 2013).

IAS 1 *Presentation of Financial Statements* requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 *Presentation of Financial Statements* clarity that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

Amendments to IAS 12 *Income Taxes* "Deferred tax: Recovery of Underlying Assets"

The Group has applied the amendments to IAS 12 *Income taxes* "Deferred tax: Recovery of Underlying Assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted. An application of the amendments to IAS 12 *Income taxes* "Deferred tax: Recovery of Underlying Assets" did not have an effect on the Group's consolidated financial statements.

3.2 New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[3];
- IFRS 10 *Consolidated Financial Statements*[2];
- IFRS 11 *Joint Arrangements*[2];

- IFRS 12 *Disclosure of Interest in Other Entities*[2];
- IFRS 13 *Fair Value Measurement*[1];
- Amendments to IFRS 7 *Financial Instruments: Disclosures* – "Disclosures – Offsetting Financial Assets and Financial Liabilities"[1];
- Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures – "*Mandatory Effective Date of IFRS 9 and Transition Disclosures"[3]*;*
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interest in Other Entities* – "Consolidated Financial statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance"[1]*;*
- IAS 19 (as revised in 2011) *Employee Benefits*[1];
- IAS 27 (as revised in 2011) *Separate Financial Statements*[2];
- IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*[2];
- Amendments to IAS 32 *Financial Instruments: Presentation* – "Offsetting Financial Assets and Financial Liabilities"[4];
- Amendments to IFRSs – *Annual Improvements to IFRSs 2009-2011 cycle except for the amendment to IAS 1 (see above)*[1].

[1] Effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

[2] Each of the five standards becomes effective for annual periods beginning on or after January 1, 2013, with earlier application permitted if all the other standards in the 'package of five' are also early applied (except for IFRS 12 that can be applied earlier on its own).

[3] Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

[4] Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments*, issued in November 2009 and amended in October 2010, introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9 *Financial Instruments*, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 *Financial Instruments* requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Group management anticipates that IFRS 9 *Financial Instruments* in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 *Financial Instruments* until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*.

Key requirements of these five Standards are described below.

IFRS 10 Consolidated Financial Statements replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10 Consolidated Financial Statements. Under IFRS 10 Consolidated Financial Statements, there is only one basis for consolidation, that is, control. In addition, IFRS 10 Consolidated Financial Statements includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 Consolidated Financial Statements to deal with complex scenarios.

The Group management anticipates that the application of the new Standard will have no affect on the Group's consolidated financial statements.

IFRS 11 Joint Arrangements replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 *Joint Arrangements* deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11 *Joint Arrangements*. Under IFRS 11 *Joint Arrangements*, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, joint ventures under IFRS 11 *Joint Arrangements* are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 *Interests in Joint Ventures* can be accounted for using the equity method of accounting or proportional consolidation.

The Group management anticipates that the application of the new Standard will have no affect on the Group's consolidated financial.

IFRS 12 Disclosure of Interests in Other Entities is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interest in Other Entities* were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

The Group management anticipates that the application of the new Standard will have no affect on the Group's consolidated financial.

IFRS 13 Fair Value Measurement

IFRS 13 *Fair Value Measurement* establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 *Fair Value Measurement* is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures amount fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 *Fair Value Measurement* are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7

Financial Instruments: Disclosures will be extended by IFRS 13 *Fair Value Measurement* to cover all assets and liabilities within its scope.

The Group management anticipates that the application of the new Standard may affect certain amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation – "Offsetting Financial Assets and Financial Liabilities and the related disclosures"

The amendments to IAS 32 *Financial Instruments: Presentation* clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 *Financial Instruments: Disclosures* require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The disclosures should be provided retrospectively for all comparative periods.

The Group management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regards to offsetting financial assets and financial liabilities in the future.

IAS 19 Employee Benefits

The amendments to IAS 19 *Employee Benefits* change the accounting for defined benefit plans and termination benefits and a definition of short-term benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur< and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 *Employee Benefits* and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 *Employee Benefits* are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to IAS 19 *Employee Benefits* require retrospective application. The Group management does not anticipate that the revision of IAS 19 *Employee Benefits* will have a significant effect on the Group's consolidated financial statements as the Group has not defined benefit plans.

Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009-2011 Cycle include a number of amendments to various IFRSs. Amendments to IFRSs include:

Amendments to IAS 32 Financial Instruments: Presentation

The amendments to IAS 32 *Financial Instruments: Presentation* clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*. The Group management anticipates that the amendments to IAS 32 *Financial Instruments: Presentation* will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

4. NET INTEREST INCOME

	Year ended December 31, 2012	Year ended December 31, 2011
Interest income		
Interest income on financial assets recorded at amortized cost:		
Interest income on impaired financial assets	13,686	33,117
Interest income on unimpaired financial assets	13,849	32,048
Total interest income	**27,535**	**65,165**
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	26,583	61,016
Interest on balances due from banks	791	2,825
Interest on investments held to maturity	161	1,324
Total interest income on financial assets recorded at amortized cost	**27,535**	**65,165**
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(8,583)	(25,803)
Total interest expense	**(8,583)**	**(25,803)**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on subordinated debt	(5,671)	(19,773)
Interest on customer accounts	(1,969)	(3,027)
Interest on deposits by banks	(943)	(3,003)
Total interest expense on financial liabilities recorded at amortized cost	**(8,583)**	**(25,803)**
Net interest income before (provision)/ recovery of provision for impairment losses on interest bearing financial assets	**18,952**	**39,362**

5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans to customers
December 31, 2010	**37,068**
Additional provisions recognised	106,249
Write-off of assets	(10,570)
December 31, 2011	**132,747**
Additional provisions recognised	(13,284)
Write-offs	(115, 728)
Recoveries of assets previously written off	14,962
December 31, 2012	**18,697**

The movements in other provisions were as follows:

	Other assets	Guarantees	Total
December 31, 2010	3	1,184	1,187
Additional provisions recognised/(recovery of provisions)/	73	(800)	(727)
Write-off of assets	(76)	-	(76)
December 31, 2011	-	384	384
Additional provisions recognised/(recovery of provisions)/	-	(56)	(56)
Write-off of assets	-	-	-
December 31, 2012	**-**	**328**	**328**

6. NET GAIN/LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets at fair value through profit or loss comprises:

	Year ended December 31, 2012	Year ended December 31, 2011
Net gain/(loss) on operations with financial assets initially recognised at fair value through profit and loss comprise:		
Realized gain on trading operations	23,406	23,403
Realized loss on trading operations	(24,491)	(21,860)
Total net gain/(loss) on operations with financial assets designated at fair value through profit or loss	**(1,085)**	**1,543**

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2012	Year ended December 31, 2011
Dealing, net	2,100	4,965
Translation differences, net	209	(2,068)
Total net gain on foreign exchange operations	**2,309**	**2,897**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2012	Year ended December 31, 2011
Fee and commission income:		
Plastic cards operations	1,791	1,789
Settlements	716	1,095
Documentary operations	543	920
Cash operations	218	519
Foreign exchange operations	1	2
Other	17	171
Total fee and commission income	**3,286**	**4,496**
Fee and commission expense:		
Plastic cards services	(1,786)	(1,994)
Documentary operations	(395)	(365)
Settlements	(196)	(264)
Cash operations	(12)	(14)
Other	(67)	(113)
Total fee and commission expense	**(2,456)**	**(2,750)**

9. OTHER INCOME

Other income comprises:

	Year ended December 31, 2012	Year ended December 31, 2011
Insurance premiums	(2,036)	1,885
Legal income	73	165
Fines and penalties received	18	11
Recovery of assets written-off	-	-
Other	822	509
Total other income	**(1,123)**	**2,570**

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2012	Year ended December 31, 2011
Staff costs	9,202	7,567
Charity and sponsorship	26	1,907
Operating leases	1,634	1,713
Depreciation and amortization	1,527	1,479
Professional services	352	1,015
Communication expenses	868	746
Security expenses	649	579
Postal expenses	343	361
Utilities	213	217
Taxes, other than income tax	160	171
Property and equipment maintenance	85	157
Representative expenses	87	68
Advertising expenses	311	62
Business trip expenses	53	42
Training	13	19
Other expenses	2,276	1,735
Total operating expenses	**17,799**	**17,838**

11. INCOME TAXES

The Group provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Georgia, which differs from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2012 and 2011 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 15% payable by corporate entities in Georgia on taxable profits under tax law in that jurisdiction.

Temporary differences as at December 31, 2012 and 2011 comprise:

	December 31, 2012	December 31, 2011
Property and equipment	(840)	(861)
Loans to customers	(255)	12,605
Other assets	(84)	(84)
Other liabilities	(2)	(2)
Provisions for guarantees and other operations	89	95
Insurance Reserves	50	-
Subordinated debt	43	15
Net deferred tax (liability)/asset at the statutory tax rate (15%)	(999)	11,767
Loss carry forward	10,429	-
Net deferred tax asset/(liability)	**9,430**	**11,767**

Relationships between tax expenses and accounting profit for the years ended December 31, 2012 and 2011 are explained as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Profit/(Loss) Profit before income tax	15,424	(75,242)
Tax at the statutory tax rate (15%)	2,314	(11,286)
Permanent differences	24	(155)
Income tax expense/(benefit)	**2,338**	**(11,441)**
Current income tax expense	-	2,765
Deferred tax (benefit) recognised in the current year	2,338	(14,206)
Income tax (benefit)	**2,338**	**(11,441)**

Deferred income tax asset	**2012**	**2011**
As at January 1 – deferred tax (liabilities)/assets	**11,768**	**(2,439)**
Change in deferred income tax balances recognised in consolidated profit	(2,338)	14,207
As at December 31- deferred tax assets/(liabilities)	**9,430**	**11,768**

12. CASH AND BALANCES WITH THE NATIONAL BANK OF GEORGIA (THE "NBG")

	December 31, 2012	December 31, 2011
Cash	12,380	10,327
Balances with the NBG	4,310	16,462
Total cash and balances with the NBG	**16,690**	**26,789**

The obligatory minimum reserve deposits with the NBG included in the balances with the NBG are restricted balances of GEL 6,170 thousand and GEL 10,629 thousand, respectively, as at December 31, 2012 and 2011. The Group is required to maintain minimum reserve deposits at the NBG at all times.

Cash and cash equivalents for the purposes of the consolidated statement of cash flows comprise the following:

	December 31, 2012	December 31, 2011
Cash and balances with the NBG	16,690	26,789
Due from banks (Note 18)	62,620	27,350
Less minimum reserve deposits with the NBG	(6,170)	(10,629)
Total cash and cash equivalents	**73,140**	**43,510**

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	December 31, 2012	December 31, 2011
Financial assets held for trading:		
Equity securities	10,845	15,479
Total financial assets at fair value through profit or loss	**10,845**	**15,479**

The Group estimates changes in fair value due to credit risk, by estimating the amount of change in the fair value that is not due to changes in market conditions that give rise to market risks.

14. DUE FROM BANKS

Due from banks comprise:

	December 31, 2012	December 31, 2011
Time deposits	64,337	9,197
Correspondent accounts	4,603	18,404
Total due from banks	**68,940**	**27,601**

Included in due from banks is accrued interest in the amount of GEL 2 thousand and GEL 3 thousand as at December 31, 2012 and 2011, respectively.

As at December 31, 2012 and 2011 the Group had balances due from one bank with individual exposure exceeding 10% of the Group's equity.

As at December 31, 2012 and 2011 included in balances due from banks are guarantee deposits placed by the Group for its operations with plastic cards totaling GEL 6,296 thousand and GEL 251 thousand, respectively.

As at December 31, 2012 and 2011 the maximum credit risk exposure on due from banks amounted to GEL 66,036 thousand and GEL 27,601 thousand, respectively.

15. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2012	December 31, 2011
Originated loans to customers	260,455	365,951
Accrued interest	22,030	22,948
	282,485	388,899
Less allowance for impairment losses	(18,697)	(132,747)
Total loans to customers	**263,788**	**256,152**

Movements in the allowance for impairment losses for the years ended December 31, 2012 and 2011 are disclosed in Note 5.

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Group:

	December 31, 2012	December 31, 2011
Loans collateralized by pledge of real estate, equipment and inventories	252,039	240,078
Loans collateralized by pledge of cash	170	3,403
Other collateral	8,542	6,836
Unsecured loans	3,037	5,835
Total loans to customers	**263,788**	**256,152**

	December 31, 2012	December 31, 2011
Analysis by sector:		
Construction	90,400	81,564
Trade and services	95,606	97,971
Individuals	43,966	19,690
Manufacturing	32,795	33,501
Agriculture	270	7,064
Transport and communication	256	527
Energy	189	242
Other	306	15,593
Total loans to customers	**263,788**	**256,152**

During the years ended December 31, 2012 and 2011 the Group received financial and non-financial assets by taking possession of collateral it held as security. As at December 31, 2012 and 2011 such assets in amount of GEL 26,859 thousand and GEL 25,166 thousand, respectively, are included in other assets of the Group.

Loans to individuals comprise the following products:

	December 31, 2012	December 31, 2011
Consumer loans	29,353	5,163
Mortgage loans	11,628	14,467
Other	2,985	60
Total loans to individuals	**43,966**	**19,690**

As at December 31, 2012 and 2011 allowance for impairment losses to individuals amounted to GEL 1,694 thousand and GEL 6,957 thousand, respectively.

	31-Dec-12			31-Dec-11		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value**	**Carrying value before allowance**	**Allowance for impairment losses**	**Carrying value**
Loans to customers individually determined to be impaired	103,362	17,590	85,772	181,318	130,519	50,799
Loans to customers collectively determined to be impaired	69,189	1,107	68,082	14,653	2,228	12,425
Unimpaired loans	109,934	-	109,934	192,929	-	192,929
Total	**282,485**	**18,697**	**263,788**	**388,900**	**132,747**	**256,153**

As at December 31, 2012 and 2011 the Group granted loans to two and seven customers, totaling GEL 28,425 thousand and GEL 117,268 thousand, respectively, which individually exceeded 10% of the Group's equity.

As at December 31, 2012 and 2011 a maximum credit risk exposure on loans to customers amounted to GEL 263,788 thousand and GEL 256,152 thousand, respectively.

As at December 31, 2012 and 2011 all loans were granted to companies operating in Georgia, which represents a significant geographical concentration.

As at December 31, 2012 and 2011 loans to customers included loans totaling GEL 77,750 thousand and GEL 136,340 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

16. INVESTMENTS HELD TO MATURITY

	December 31, 2012		December 31, 2011	
	Nominal annual interest rate	**Amount**	**Nominal annual interest rate**	**Amount**
Deposit certificates of the Ministry of Finance of Georgia		-	7.70%-8.50%	6,500
Less discount		-		(86)
Total investments held to maturity		**-**		**6,414**

17. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Buildings and other real estate	Furniture and fixtures	Computer and office equipment	Leasehold improvements and other	Construction in progress	Total
At cost						
December 31, 2010	6,458	4,939	2,857	2,075	2,309	18,638
Additions	-	61	285	19	732	1,097
Transfers	2,558	180	70	31	(2,839)	-
Disposals	(103)	(116)	(260)	(513)	(27)	(1,019)
December 31, 2011	8,913	5,064	2,952	1,612	175	18,716
Additions	-	108	254	11	4	377
Transfers	-	-	-	-	-	-
Disposals	-	(50)	(153)	(142)	(46)	(391)
December 31, 2012	8,913	5,122	3,053	1,481	133	18,702
Accumulated depreciation						
December 31, 2010	590	2,188	1,628	691	-	5,097
Depreciation charge	206	532	343	204	-	1,285
Eliminated on disposals	(103)	(91)	(255)	(178)	-	(627)
December 31, 2011	693	2,629	1,716	717	-	5,755
Depreciation charge	229	518	341	176	-	1,264
Eliminated on disposals	-	(49)	(149)	(69)	-	(267)
December 31, 2011	922	3,098	1,909	824	-	6,752
Net book value						
As at December 31, 2012	**7,991**	**2,024**	**1,144**	**657**	**133**	**11,950**
As at December 31, 2011	**8,220**	**2,435**	**1,236**	**895**	**175**	**12,961**

As at December 31, 2012 and 2011 included in property and equipment were fully depreciated assets totaling GEL 1,557 thousand and GEL 1,128 thousand, respectively.

18. OTHER ASSETS

Other assets comprise:

	December 31, 2012	December 31, 2011
Other financial assets:		
Accounts receivable	2,738	928
Less allowance for impairment of other financial assets	-	-
Total other financial assets	2,738	928
Other non-financial assets:		
Repossessed assets	26,859	25,166
Intangible assets	2,384	1,629
Tax settlements, other than income tax	1,693	1,275
Advances paid	269	725
Inventory	454	407
Other	439	17
Total other assets	**34,836**	**30,147**

Movements in the allowance for impairment losses on other assets for the years ended December 31, 2012 and 2011 are disclosed in Note 5.

Repossessed assets as at December 31, 2011 and 2010 include land and buildings in the amount of GEL 26,859 thousand and GEL 25,166 thousand, respectively, which are measured lower of its carrying amount and fair value less cost to sell. The repossessed assets added during the year have been valued by independent appraiser as at December 31, 2012 and 2011. On the other hand for the assets already existed independent appraiser has prepared report showing that market prices haven’t changed during two subsequent years. The following method was used for the estimation of their fair value: direct sales comparison method (comparative approach).

	Intangible assets
At cost	
December 31, 2010	2,285
Additions	327
Disposals	(59)
December 31, 2011	2,553
Additions	1,009
Disposals	(36)
December 31, 2012	3,526
Accumulated amortization	
December 31, 2010	786
Charge for the year	194
Eliminated on disposals	(56)
December 31, 2011	924
Charge for the year	254
Eliminated on disposals	(36)
December 31, 2012	1,142
Net book value	
December 31, 2012	**2,384**
December 31, 2011	**1,629**

19. DEPOSITS BY BANKS

Deposits by banks comprise:

	December 31, 2012	December 31, 2011
Correspondent accounts of other banks	87	97
European Bank of Reconstruction and Development (the “EBRD”)	7,527	14,302
Black Sea Trade and Development Bank (the “BSTDB)	-	11,599
Total deposits by banks	**7,614**	**25,998**

As at December 31, 2012 and 2011 accrued interest expenses included in deposits by banks amounted to GEL 194 thousand and GEL 923 thousand, respectively.

The Group is obligated to comply with financial covenants in relation to certain deposits by banks disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. During the year ended December 31, 2012 the Group has breached the following ratios set by the EBRD – single party, total connected parties, NPL – LLR and 20 largest exposures. The Group has obtained a waiver from EBRD for this financial covenant as at March 27, 2011 for the year ending December 31, 2012. As at December 31, 2012 balances due to EBRD amounted to GEL 7,527 thousand.

20. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2012	December 31, 2011
Time deposits	24,939	19,871
Repayable on demand	41,684	57,435
Total customer accounts	**66,623**	**77,306**

As at December 31, 2012 and 2011 accrued interest expenses included in customer accounts amounted to GEL 507 thousand and GEL 383 thousand, respectively.

As at December 31, 2012 and 2011 customer accounts totaling GEL 84 thousand and GEL 241 thousand, respectively, were held as security against guarantees issued by the Group.

As at December 31, 2012 and 2011 customer accounts totaling GEL 18,471 thousand and GEL 33,306 thousand (28% and 43% of total customer accounts), respectively, were due nine and ten customers, which represents a significant concentration.

	December 31, 2012	December 31, 2011
Analysis by economic sector/customer type:		
Individuals	42,575	31,072
Trade and services	12,675	19,343
Construction	964	5,950
Transport and communication	243	1,835
Manufacturing	1,125	1,733
Agriculture	171	351
Energy	97	139
Other	8,773	16,883
Total customer accounts	**66,623**	**77,306**

21. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2012	December 31, 2011
Other financial liabilities:		
Accounts payable	-	32
Other non-financial liabilities:		
Taxes payable, other than income tax	6	172
Insurance reserves	2,409	1,045
Other	328	881
Total other liabilities	**2,743**	**2,130**

22. SUBORDINATED DEBT

Subordinated debt comprises:

	Currency	Maturity date	Interest rate %	December 31, 2012	December 31, 2011
FinService-XXI LTD	USD	28-Dec-21	5%	4,972	5,016
FinService-XXI LTD	USD	31-Mar-26	2%	34,167	34,506
FinService-XXI LTD	USD	31-Mar-26	2%	11,264	11,381
FinService-XXI LTD	USD	22-Jun-14	5%	16,574	16,721
				66,977	67,624
Inter Consulting Plus LTD	USD	22-Jun-14	5%	16,574	16,717
Inter Consulting Plus LTD	USD	17-Oct-25	5%	11,602	11,701
Inter Consulting Plus LTD	USD	2-Oct-14	5%	8,286	8,364
				36,462	36,782
Georgian Holding LTD	USD	22-Jun-14	5%	16,574	16,714
Christa Enterprises LTD	USD	28-Feb-17	5%	-	5,850
				16,574	22,564
Total subordinated debt				**120,013**	**126,970**

As at December 31, 2012 and 2011 accrued interest expense included in subordinated debt amounted to GEL 193 thousand and GEL 148 thousand, respectively.

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

On 31 March and 13 December 2011 the Group signed subordinated loan agreement with Finservice- XXI LTD both maturing on March 31, 2026. According to the agreement the loan is convertible to equity at maturity. The interest is payable annually in arrears at a nominal annual interest rate of 2 per cent. When the loan was taken, the prevailing market interest rate for similar loan without conversion options was 5 per cent.

23. OTHER BORROWINGS

Recorded at amortized cost:	Currency	**Maturity** date	**Interest** rate %	**31-Dec-12**	**31-Dec-11**
Time Deposit	GEL	19/10/2015	3%	40,000	-
Accrued Interest	GEL			39	-
Total Other Borrowings				**40,039**	**-**

On October 19, 2012 the former ultimate shareholder of the Bank Bidzina Ivanishvili placed deposit in the bank in the amount of GEL 80 million with interest rate of 3% and maturity of October, 19, 2015. The principal amount has been gradually covered till the end of the year consisting the balance of GEL 40 million as at December 31, 2012.

24. SHARE CAPITAL

As at December 31, 2012 and 2011 share capital consisted of 92,850 and 81,196 ordinary shares with par value of GEL 1 each.

The Group's share capital comprises of the following number of shares:

	Share capital Pcs'000
Ordinary shares	
December 31, 2010	54,716
Issue of shares	26,480
December 31, 2011	81,196
Issue of shares	11,654
December 31, 2012	**92,850**

25. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Provision for losses on contingent liabilities totaled GEL 328 thousand and GEL 384 thousand as at December 31, 2012 and 2011, respectively.

As at December 31, 2012 and 2011 contingent liabilities comprise:

	December 31, 2012	December 31, 2011
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	16,251	20,174
Letters of credit and other transaction related contingent obligations	7,319	8,241
Commitments on loans and unused credit lines	4,614	2,950
Total contingent liabilities and credit commitments	**28,184**	**31,365**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2011 and 2010 such unused credit lines come to GEL 4,614 thousand and GEL 2,950 thousand, respectively.

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at December 31, 2012 and 2011.

Operating lease commitments – No material rental commitments were outstanding as at December 31, 2012 and 2011.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation of Georgia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Operating environment – The Group's principal business activities are within Georgia. Laws and regulations affecting the business environment in Georgia are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Georgia and its economy in general.

Laws and regulations affecting businesses in Georgia continue to change rapidly. Tax, currency and customs legislation within Georgia are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Georgia. The future economic direction of Georgia is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has negatively affected Georgia's financial and capital markets in 2009 and 2010 has receded and Georgia's economy returned to growth in 2011 and 2012. However, significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Georgia's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Pensions and retirement plans – Employees receive pension benefits from the Government of Georgia in accordance with the laws and regulations of the country. As at December 31, 2012 and 2011, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

26. TRANSACTIONS WITH RELATED PARTIES

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	December 31, 2012		December 31, 2011	
	Related party balances	**Total category as per the consolidated financial statements caption**	**Related party balances**	**Total category as per the consolidated financial statements caption**
Loans to customers	55,035	282,485	16,414	388,899
- other related parties	55,035		16,414	
Allowance for impairment losses on loans to customers	(163)	(18,697)	(502)	(132,747)
- other related parties	(163)		(502)	
Customer accounts	26,410	66,623	30,582	77,306
- shareholders	-		11,891	
- key management personnel	-		-	
- other related parties	16,410		18,691	
Subordinated debt	120,013	120,013	126,970	126,970
- shareholders	120,013		126,970	
Provisions	-	328	4	384
- other related parties	-		4	
Letters of credit and other transaction related contingent obligations	645	7,319	-	8,241
- shareholders	25			
- other related parties	620			
Guarantees issued and similar commitments	-	16,251	-	20,174
- other related parties	-			

The remuneration of directors and other members of key management were as follows:

	December 31, 2012		December 31, 2011	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	723	9,202	774	7,567

Included in the consolidated statement of profit or loss for the years ended December 31, 2012 and 2011 are the following amounts which were recognised in transactions with related parties:

	Year ended December 31, 2012		Year ended December 31, 2011	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Interest income	3,164	27,535	5,614	65,165
- other related parties	3,164		5,614	
Interest expense	578	(8,606)	(19,318)	(25,803)
- shareholders	0		-	
- other related parties	578		(19,318)	
Provision for impairment losses on interest bearing assets	339	13,284	(301)	(106,249)
- other related parties	339			
Fee and commission income	233	3,287	196	4,496
- shareholders	17		7	
- key management	0		1	
- other related parties	216		188	

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale.

Assets for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

Loans and advances to banks

The fair value of loans and advances to banks has been estimated using the same valuation technique for financial instruments accounted for at fair value as described in the valuation techniques below.

Loans and advances to customers

Loans and advances to personal customers are made both at variable and at fixed rates. As there is no active secondary market in Georgia for such loans and advances, there is no reliable market value available for this portfolio.

(a) Variable rate – Management believes that carrying rate may be assumed to be fair value.

(b) Fixed rate – Certain of the loans secured are at a fixed rate. Fair value has been estimated by reference to the market rates available at the balance sheet date for similar loans of maturity equal to the remaining fixed period.

Financial investments – available for sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Except as detailed below, management of the Group considers that the fair value of financial assets and liabilities approximates their carrying value:

	December 31, 2012		December 31, 2011	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the NBG	16,690	16,690	26,789	26,789
Due from banks	68,940		27,601	27,595
Loans to customers	263,788		256,152	255,100
Investments available-for-sale	451	451	322	322
Investments held to maturity	-	-	6,414	6,414
Other financial assets	2,738	2,378	928	928
Deposits by banks	7,614		25,998	25,738
Customer accounts	66,623		77,306	77,249
Other financial liabilities	-	-	32	32
Subordinated debt	120,013	120,013	126,970	126,970

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBG in supervising the Group.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 22, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in consolidated statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy remains unchanged from 2011.

The following table analyzes the Group's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee:

	Year ended December 31, 2012	Year ended December 31, 2011
Movement in tier 1 capital:		
At January 1	155,464	171,786
Net profit	13,504	(64,191)
Issue of share	11,654	26,480
Additional paid in capital	-	20,999
Non-controlling interest	(800)	390
At December 31	**179,222**	**155,464**

	Year ended December 31, 2012	Year ended December 31, 2011
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	92,850	81,196
Additional paid in capital	24,816	24,816
Retained earnings	61,518	48,014
Non-controlling interest	638	1,438
Total qualifying tier 1 capital	179,822	155,464
Subordinated debt (restricted to 50% of Tier 1 capital)	89,911	77,732
Less investments to companies engaged in financial activities	(320)	(250)
Total regulatory capital	**269,413**	**232,946**
Capital ratios:		
Tier 1 capital	41.73%	37.14%
Total capital	57.22%	55.64%

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

As at December 31, 2012 and 2011, the Group included in the computation of Total Capital for capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

29. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Group recognises that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processed are performed by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Heads of Credit Departments and Branch Credit Divisions.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by a borrower, industry sector are approved quarterly by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored on a regular basis.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees. However, some portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum exposure of credit risk

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

	Maximum exposure	
	December 31, 2012	**December 31, 2011**
Financial assets at fair value through profit or loss	10,845	15,479
Due from banks	68,940	27,601
Loans to customers	263,788	256,152
Investments available-for-sale	451	322
Investments held to maturity	0	6,414
Other financial assets	2,738	928
Guarantees issued and similar commitments	16,251	20,174
Commitments on loans and unused credit lines	4,614	2,950

Off – balance sheet risk

The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Credit quality by classes of financial assets

As at December 31, 2012:

	Neither past due nor individually impaired	**Past due but not individually impaired**	**Individually impaired**	**Collectively impaired**	**(Impairment allowance)**	**Total**
Balances with the NBG	4,310	-	-	-	-	4,310
Due from banks	68,940	-	-	-	-	68,940
Loans to customers	73,240	6,573	103,362	99,310	(18,697)	263,788
Investments available-for-sale	451	-	-	-	-	451
Investments held to maturity	-	-	-	-	-	-
Other financial assets	2,738	-	-	-	-	2,738

As at December 31, 2011:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Collectively impaired	(Impairment allowance)	Total
Balances with the NBG	16,462	-	-	-	-	16,462
Due from banks	27,601	-	-	-	-	27,601
Loans to customers	132,759	8,298	233,189	14,653	(132,747)	256,152
Investments available-for-sale	322	-	-	-	-	322
Investments held to maturity	6,414	-	-	-	-	6,414
Other financial assets	928	-	-	-	-	928

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at December 31, 2012 and 2011 the balances with the NBG amounted to GEL 4,310 thousand and GEL 16,462 thousand, respectively. The credit rating of Georgia according to the international rating agencies corresponded to investment level <BBB.

The following table details credit ratings of financial assets held by the Group as at December 31, 2012:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2012
Balances with the NBG	-	-	-	-	4,310	-	4,310
Financial assets at fair value through profit or loss	-	-	-	-	-	10,845	10,845
Due from banks	-	5	7,235	374	57,046	4,280	68,940
Loans to customers	-	-	-	-	-	263,788	263,788
Investments available-for-sale	-	-	-	-	-	451	451
Investments held to maturity	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	2,738	2,738

As at December 31, 2011:

	AAA	AA	A	BBB	<BBB	Not Rated	Total at December 31, 2011
Balances with the NBG	-	-	-	-	16,462	-	16,462
Financial assets at fair value through profit or loss	-	-	862	-	-	14,617	15,479
Due from banks	-	1,141	13,472	-	9,848	3,140	27,601
Loans to customers	-	-	-	-	-	256,152	256,152
Investments available-for-sale	-	-	-	-	-	322	322
Investments held to maturity	-	-	-	-	6,414	-	6,414
Other financial assets	-	-	-	-	-	928	928

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within Georgia. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Geographical concentration

The Assets and Liabilities Committee ("ALCO") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in Georgia.

The geographical concentration of assets and liabilities is set out below:

	Georgia	Other non-OECD countries	OECD countries	December 31, 2012 Total
FINANCIAL ASSETS				
Cash and balances with the NBG	16,690	-	-	16,690
Financial assets at fair value through profit or loss	-	-	10,845	10,845
Due from banks	61,111	439	7,390	68,940
Loans to customers	263,734	54	-	263,788
Investments available-for-sale	451	-	-	451
Investments held to maturity	-	-	-	-
Other financial assets	2,706	32	-	2,738
TOTAL FINANCIAL ASSETS	344,692	525	18,235	363,452
FINANCIAL LIABILITIES				
Deposits by banks	84	4	7,527	7,614
Customer accounts	53,514	3,026	10,083	66,623
Other financial liabilities	-	-	-	-
Subordinated debt	120,013	-	-	120,013
TOTAL FINANCIAL LIABILITIES	173,611	3,030	17,610	194,250
NET POSITION	**170,081**	**(2,505)**	**625**	

	Georgia	Other non-OECD countries	OECD countries	December 31, 2011 Total
FINANCIAL ASSETS				
Cash and balances with the NBG	26,789	-	-	26,789
Financial assets at fair value through profit or loss	-	106	15,373	15,479
Due from banks	11,909	14,192	1,500	27,601
Loans to customers	256,152	-	-	256,152
Investments available-for-sale	322	-	-	322
Investments held to maturity	6,414	-	-	6,414
Other financial assets	928	-	-	928
TOTAL FINANCIAL ASSETS	302,514	14,298	16,873	333,685
FINANCIAL LIABILITIES				
Deposits by banks	95	-	25,903	25,998
Customer accounts	74,911	1,525	870	77,306
Other financial liabilities	32	-	-	32
Subordinated debt	121,106	5,864	-	126,970
TOTAL FINANCIAL LIABILITIES	196,144	7,389	26,773	230,306
NET POSITION	**106,370**	**6,909**	**(9,900)**	

Liquidity risk

Liquidity risk management

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The ALCO controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, that are not derivatives, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Group will be liable to redeem the liability;

(b) term to maturity of financial liabilities, that are derivatives, calculated for non-discounted cash flows on financial liabilities on the earliest date, when the Group will be liable to redeem the liability; and

(c) estimated term till maturity of financial assets, that are not derivatives, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Group expects that cash flows will be received in the different time.

An analysis of the liquidity by classes of financial assets and financial liabilities, and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2012 Total
FINANCIAL ASSETS						
Balances with NBG	6,798	-	-	-	-	6,798
Due from banks	57,500	250	266	-	-	58,016
Loans to customers	29,525	9,813	31,722	102,416	90,312	263,788
Investments held to maturity	-	-	-	-	-	-
Total interest bearing financial assets	**93,823**	**10,063**	**31,988**	**102,416**	**90,313**	**328,602**
Cash and balances with the NBG	9,892	-	-	-	-	9,892
Financial assets at fair value through profit or loss	10,845	-	-	-	-	10,845
Due from banks	4,628	-	-	4,970	1,326	10,924
Investments available-for-sale	-	-	-	451	-	451
Other financial assets	2,632	4	-	-	102	2,738
Total financial assets	**121,820**	**10,067**	**31,988**	**107,837**	**91,740**	**363,452**
FINANCIAL LIABILITIES						
Deposits by banks	2,228	-	-	5,301	-	7,529
Customer accounts	4,940	1,655	13,846	3,550	16	24,007
Subordinated debt	65	-	-	57,982	61,966	120,013
Total interest bearing financial liabilities	**7,233**	**1,655**	**13,846**	**66,833**	**61,982**	**151,549**
Deposits by banks	85	-	-	-	-	85
Customer accounts	39,324	39	729	2,524	-	42,616
Other financial liabilities	0	-	-	-	-	0
Total financial liabilities	**46,642**	**1,694**	**14,575**	**69,357**	**61,982**	**194,250**
Interest sensitivity gap	86,590	8,408	18,142	35,583	28,330	
Cumulative interest sensitivity gap	**86,590**	**94,998**	**113,140**	**148,723**	**177,053**	
Liquidity gap	75,178	8,373	17,413	38,480	29,758	
Cumulative liquidity gap	**75,178**	**83,551**	**100,964**	**139,444**	**169,202**	

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2011 Total
FINANCIAL ASSETS						
Due from banks	9,197	-	-	-	-	9,197
Loans to customers	27,828	1,008	28,653	95,996	102,667	256,152
Investments held to maturity	1,000	4,000	1,414	-	-	6,414
Total interest bearing financial assets	**38,025**	**5,008**	**30,067**	**95,996**	**102,667**	**271,763**
Cash and balances with the NBG	26,789	-	-	-	-	26,789
Financial assets at fair value through profit or loss	15,479	-	-	-	-	15,479
Due from banks	18,404	-	-	-	-	18,404
Investments available-for-sale	-	-	-	322	-	322
Other financial assets	928	-	-	-	-	928
Total financial assets	**99,625**	**5,008**	**30,067**	**96,318**	**102,667**	**333,685**
FINANCIAL LIABILITIES						
Deposits by banks	-	-	10,893	13,648	1,361	25,902
Customer accounts	7,597	4,902	10,488	2,142	12	25,141
Subordinated debt	147	-	-	41,758	85,065	126,970
Total interest bearing financial liabilities	**7,744**	**4,902**	**21,381**	**57,548**	**86,438**	**178,013**
Deposits by banks	96	-	-	-	-	96
Customer accounts	52,165	-	-	-	-	52,165
Other financial liabilities	32	-	-	-	-	32
Total financial liabilities	**60,037**	**4,902**	**21,381**	**57,548**	**86,438**	**230,306**
Interest sensitivity gap	30,281	106	8,686	38,448	16,229	
Cumulative interest sensitivity gap	**30,281**	**30,387**	**39,073**	**77,521**	**93,750**	
Liquidity gap	39,588	106	8,686	38,770	16,229	
Cumulative liquidity gap	**39,588**	**39,694**	**48,380**	**87,150**	**103,379**	

An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group. The amounts disclosed in these tables do not correspond to the amounts recorded in the consolidated statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognised in the consolidated statement of financial position under the effective interest rate method.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2012 Total
FINANCIAL LIABILITIES							
Deposits by banks	6.41%	2,238	-	-	6,660	-	8,898
Customer accounts	7.64%	4,972	1,687	14,551	4,635	26	25,871
Subordinated Debt	3.59%	66	-	-	66,308	110,171	176,545
Total interest bearing financial liabilities		7,276	1,687	14,551	77,603	110,197	211,314
Deposits by banks		85	-	-	-	-	85
Customer accounts		39,324	39	729	2,524	-	42,616
Other financial liabilities		0	-	-	-	-	0
TOTAL FINANCIAL LIABILITIES		**46,685**	**1,726**	**15,280**	**80,127**	**110,197**	**254,015**

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2011 Total
FINANCIAL LIABILITIES							
Deposits by banks	2.35%	1,089	2,171	9,772	14,271	725	28,028
Customer accounts	7.70%	8,746	4,867	10,129	3,115	12	26,869
Subordinated Debt	5.00%	242	439	1,953	55,517	68,819	126,970
Total interest bearing financial liabilities		10,007	7,477	21,854	72,903	69,556	181,867
Deposits by banks		96	-	-	-	-	96
Customer accounts		53,824	35	630	389	28	54,906
Other financial liabilities		32	-	-	-	-	32
TOTAL FINANCIAL LIABILITIES		**63,959**	**7,512**	**22,484**	**73,292**	**69,584**	**263,901**

Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed.

The Group is exposed to interest rate risks as the Group borrows funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALCO also manages interest rate and market risks by matching the Group’s interest rate position, which provides the Group with a positive interest margin. The Department of Financial Supervision conducts monitoring of the Group’s current financial performance, estimates the Group’s sensitivity to changes in interest rates and its influence on the Group’s profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate sensitivity

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Financial Supervision conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax based on asset values as at December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
Financial assets:				
Due from banks	1,160	(1,160)	184	(184)
Loans to customers	5,276	(5,276)	5,123	(5,123)
Investments held to maturity	-	-	128	(128)
Financial liabilities:				
Deposits by banks	(151)	151	(518)	518
Customer accounts	(480)	480	(503)	503
Subordinated debt	(2,400)	2,400	(2,539)	2,539
Net impact on profit before tax	**3,405**	**(3,405)**	**1,875**	**(1,875)**

Impact on equity:

	December 31, 2012		December 31, 2011	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
Financial assets:				
Due from banks	986	(986)	156	(156)
Loans to customers	4,484	(4,484)	4,355	(4,355)
Investments held to maturity	-	-	109	(109)
Financial liabilities:				
Deposits by banks	(128)	128	(440)	440
Customer accounts	(408)	408	(428)	428
Subordinated debt	(2,040)	2,040	(2,158)	2,158
Net impact on equity	**2,894**	**(2,894)**	**1,594**	**(1,594)**

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALCO controls currency risk by management of the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the National Bank of Georgia.

The Group's open positions by the major currencies in which it holds the assets and liabilities are presented below:

	GEL	USD USD 1 = GEL1.6567	EUR EUR 1 = GEL 2.1825	Other currency	December 31, 2012 Total
FINANCIAL ASSETS					
Cash and balances with the NBG	6,441	8,269	1,690	290	16,690
Financial assets at fair value through profit or loss	-	10,686	159	-	10,845
Due from banks	61,112	7,484	123	221	68,940
Loans to customers	90,988	167,607	5,193	-	263,788
Investments available-for-sale	451	-	-	-	451
Investments held to maturity	-	-	-	-	0
Other financial assets	2,552	98	88	-	2,738
TOTAL FINANCIAL ASSETS	**161,544**	**194,144**	**7,253**	**511**	**363,452**
FINANCIAL LIABILITIES					
Deposits by banks	54	7,560	-	-	7,614
Customer accounts	27,327	6,411	32,743	142	66,623
Other financial liabilities	0	-	-	-	0
Subordinated debt	-	120,013	-	-	120,013
TOTAL FINANCIAL LIABILITIES	**27,381**	**133,984**	**32,743**	**142**	**194,520**
OPEN BALANCE SHEET POSITION	**134,163**	**60,160**	**(25,490)**	**369**	

	GEL	USD USD 1 = GEL1.6703	EUR EUR 1 = GEL 2.1614	Other currency	December 31, 2011 Total
FINANCIAL ASSETS					
Cash and balances with the NBG	12,228	12,099	2,348	114	26,789
Financial assets at fair value through profit or loss	-	15,312	-	167	15,479
Due from banks	11,616	15,514	342	129	27,601
Loans to customers	114,383	134,369	7,400	-	256,152
Investments available-for-sale	322	-	-	-	322
Investments held to maturity	6,414	-	-	-	6,414
Other financial assets	393	354	103	78	928
TOTAL FINANCIAL ASSETS	**146,356**	**177,648**	**10,193**	**488**	**333,685**
FINANCIAL LIABILITIES					
Deposits by banks	55	25,942	1	-	25,998
Customer accounts	17,414	53,748	6,094	50	77,306
Other financial liabilities	18	14	-	-	32
Subordinated debt	-	126,970	-	-	126,970
TOTAL FINANCIAL LIABILITIES	**17,487**	**206,674**	**6,095**	**50**	**230,306**
OPEN BALANCE SHEET POSITION	**127,869**	**(29,026)**	**4,098**	**438**	

Currency risk sensitivity

The following table details the Group's sensitivity to a 5% increase and decrease in the USD against the GEL. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates.

Impact on net profit and equity based on asset values as at December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	GEL/USD +5%	GEL/USD -5%	GEL/USD +5%	GEL/USD -5%
Impact on profit or loss before tax	3,008	(3,008)	1,410	(1,410)
Impact on equity	2,557	(2,557)	1,199	(1,199)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margins and collateral requirements. With respect to undrawn loan commitments the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

30. SUBSEQUENT EVENTS

Subsequent to the year end, the group renewed subordinated loan from related party, FinService-XXI LTD by covering the original USD 13 million loan and taking another USD 10 million subordinated one.

Besides, on January 29, 2013 the Bank has increased its share capital in the amount of GEL 21,580 thousand.

Excess financial resources (streamed from increased customer accounts) allowed the bank to increase its loan portfolio and cover the loan to its former ultimate shareholder Bidzina Ivanishvili in the amount of GEL 40 million.