JSC Kor Standard Bank
Consolidated Financial Statements

Year ended 31 December 2011
Together with Independent Auditors' Report

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INDEPENDENT AUDITORS` REPORT

To the Shareholders and Board of Directors of JSC Kor Standard Bank –

We have audited the accompanying consolidated financial statements of Kor Standard Bank and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Kor Standard Bank and its subsidiaries as at 31 December 2011, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG LLC

3 April 2012

Consolidated statement of financial position

As at 31 December 2011

(Thousands of Georgian Lari)

	Notes	*2011*	*2010*
Assets			
Cash and cash equivalents	5	41,946	29,856
Mandatory reserve deposit with the National Bank of Georgia		18,648	5,294
Loans to customers	6	186,873	149,159
Investment securities held to maturity	7	8,824	2,704
Premises and equipment	8	16,168	17,565
Goodwill	9	20,374	20,374
Other intangible assets	10	8,922	10,677
Current income tax assets		209	177
Deferred tax assets	11	305	-
Other financial assets	12	672	1,528
Other assets	13	4,749	2,021
Total assets		**307,690**	**239,355**
Liabilities			
Amounts due to credit institutions	14	279	2,801
Amounts due to customers	15	218,658	175,371
Deferred income tax liabilities	11	-	436
Other financial liabilities	12	1,283	795
Other liabilities	13	59	53
Subordinated debts	16	8,408	8,924
Total liabilities		**228,687**	**188,380**
Equity	17		
Share capital		99,516	75,000
Accumulated losses		(20,513)	(24,025)
Total equity		**79,003**	**50,975**
Total liabilities and equity		**307,690**	**239,355**

Signed and authorised for release on behalf of the Management Board of the Bank:

George Glonti General Director

George Zhizhilashvili Financial Director

3 April 2012

The accompanying notes on pages 5 to 36 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Notes	2011	2010
Interest income		36,943	35,574
Interest expense		(17,292)	(17,710)
Net interest income	19	**19,651**	**17,864**
Loan impairment (charge)/reversal	6	(1,845)	25
Net interest income after loan impairment charge		**17,806**	**17,889**
Fee and commission income	20	4,740	3,873
Net gains from trading in foreign currencies		2,210	2,019
Other income	21	242	565
Net (loss)/gain from foreign exchange translation		(4)	42
Other non-interest income		**7,188**	**6,499**
Fee and commission expenses	20	(2,804)	(3,051)
Personnel expenses	22	(8,745)	(8,777)
Depreciation and amortisation	8,10	(4,680)	(5,117)
Administrative and other operating expenses	22	(5,995)	(6,372)
Other non-interest expenses		**(22,224)**	**(23,317)**
Income before income tax		**2,770**	**1,071**
Income tax benefit/(expense)	11	741	(468)
Profit for the year		**3,511**	**603**
Total comprehensive income for the year		**3,511**	**603**

The accompanying notes on pages 5 to 36 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Share capital	*Accumulated losses*	*Total equity*
31 December 2009	**75,000**	**(24,628)**	**50,372**
Total comprehensive income for the year	-	603	603
31 December 2010	**75,000**	**(24,025)**	**50,975**
Total comprehensive income for the year	-	3,512	3,512
Increase in share capital (Note 17)	24,516	-	24,516
31 December 2011	**99,516**	**(20,513)**	**79,003**

The accompanying notes on pages 5 to 36 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Notes	*2011*	*2010*
Cash flows from operating activities			
Interest received		38,110	36,616
Interest paid		(17,433)	(17,187)
Fees and commissions received		4,740	3,873
Fees and commissions paid		(2,804)	(3,020)
Net gains received from trading in foreign currencies		2,210	2,019
Other operating income received		243	565
Personnel expenses paid		(8,745)	(8,777)
Administrative and other operating expenses paid		(5,788)	(5,905)
Cash flows from/ (used in) operating activities before changes in operating assets and liabilities		**10,533**	**8,184**
Net decrease/(increase) in mandatory reserve deposits with the National Bank of Georgia		(14,508)	1,069
Net increase in loans to customers		(51,158)	(14,619)
Net decrease/(increase) in other financial assets		2,973	(1,235)
Net decrease in other assets		287	75
Net decrease in amounts due to credit institutions		(2,465)	(8,605)
Net increase/(decrease) in amounts to customers		50,072	(1,045)
Net increase in other financial liabilities		266	447
Net increase/(decrease) in other liabilities		12	(332)
Net cash used in operating activities before income tax		**(3,988)**	**(16,061)**
Income taxes paid		-	(114)
Net cash from/(used in) operating activities		**(3,988)**	**(16,175)**
Cash flows from investing activities			
Acquisition of investment securities held to maturity		(6,091)	(2,649)
Acquisition of premises and equipment	8	(1,860)	(2,374)
Proceeds from disposal of premises and equipment	8	437	137
Acquisition of other intangible assets	10	(31)	(520)
Net cash used in investing activities		**(7,545)**	**(5,406)**
Cash flows from financing activities			
Proceeds from issuance of shares		24,516	17,871
Net cash from financing activities		**24,516**	**17,871**
Effect of exchange rates changes on cash and cash equivalents		(893)	51
Net increase/(decrease) in cash and cash equivalents		**12,090**	**(3,659)**
Cash and cash equivalents, beginning	5	**29,856**	**33,515**
Cash and cash equivalents, ending	5	**41,946**	**29,856**

The accompanying notes on pages 5 to 36 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal activities

JSC Kor Standard Bank (the "Bank") started its activity on 6 March 2008 after the acquisition of 100% shares of JSC Standard Bank. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG"; the central bank of Georgia) on 25 February 2008.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its head office is in Tbilisi. As at 31 December 2011 the Bank has 19 operating branches in all major cities of Georgia (2010: 22). The Bank's registered legal address is 3, K. Tsamebuli Avenue, Tbilisi 0103, Georgia.

As of 31 December, the following are the shareholders of the Bank:

Shareholder	*2011* %	*2010* %
Sheikh Nahayan Mabarak Al Nahayan	45%	45%
Sheikh Hamdan Bin Zayed Al Nehayan	20%	20%
Sheikh Mohammed Butti Al Hamed	15%	15%
Sheikh Mansoor Bin Sultan Al Nehayan	15%	15%
LTD Investment Trading Group	5%	5%
Total	**100%**	**100%**

The Group is ultimately controlled by Sheikh Nahayan Mabarak Al Nahayan.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank and its subsidiary (collectively referred to as "the Group") are required to maintain its records and prepare its financial statements for regulatory purposes in Georgian Lari in accordance with Georgian banking and accounting legislation and related instructions. These consolidated financial statements are based on the Group's books and records, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of derivative financial assets and liabilities.

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

Subsidiary

The consolidated financial statements as of 31 December 2011 and 2010 include the following directly owned and controlled subsidiary:

		The Bank ownership %			
Subsidiary	*Country of incorporation*	*2011*	*2010*	*Date of incorporation*	*Type of operation*
Standard Insurance LLC	Georgia	100%	100%	29 September 2007	Insurance

(Thousands of Georgian Lari)

3. Summary of significant accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

IAS 24 "Related party disclosures" (Revised)
The revised IAS 24, issued in November 2009 and effective for annual periods beginning on or after 1 January 2011, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The amendment did not affect the Group's consolidated financial statements as the Group is not a government-related entity.

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"
In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no impact on the Group's consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. This Interpretation had no impact on the Group's consolidated financial statements.

Improvements to IFRSs
In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. The following amendments to standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Bank

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements had minor impact as information is readily available.
- Other amendments to IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 34 and IFRIC 13.
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- IFRIC 14 Prepayments of a Minimum Funding Requirement

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBG, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Mandatory reserve deposit with the NBG

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and subordinated debts. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are charged to current profit or loss when the borrowings are derecognised as well as through the amortisation process.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Leases

Operating - Group *as lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the current profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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, and the difference in the respective carrying amounts is recognised in the current profit or loss.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the current profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to current profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss– is reclassified from other comprehensive income to the current profit or loss. Impairment losses on equity investments are not reversed through the current profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the current profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the current profit or loss, the impairment loss is reversed through the current profit or loss.

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.
The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously 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 or current effective interest rate.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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, and the difference in the respective carrying amounts is recognised in current profit or loss.

Repossessed collateral

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

Credit related commitments

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

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Income Tax

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

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

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

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

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and provision for impairment.

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

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

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

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

	Useful life in years
Premises	25
Office and computer equipment	5
Vehicles	5
Furniture, fixtures and other fixed assets	5
Leasehold improvements	5 - 10

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

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

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

Other intangible assets

The Group's intangible assets other than goodwill have definite useful life.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Capitalised computer software is amortised on a straight line basis over expected useful lives of three years.

The value of customer relationship identified as a result of business combination is amortised on a straight line basis over expected customer relationship with duration of ten years.

Provisions for liabilities and charges

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

Share capital

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

Dividends

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

Income and expense recognition

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

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

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Income and expense recognition (continued)

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

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Group and its subsidiaries, and the Group's presentation currency, is Georgian Lari ("GEL").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of NBG at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of NBG are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The official NBG exchange rates at 31 December 2011 and 31 December 2010, were GEL1.669 (in full amount) and GEL 1.7728 (in full amount) to 1 USD, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 "Financial Instruments"
In November 2009 and 2010 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. For financial liabilities designated at fair value through profit or loss using fair value option IFRS 9 requires the amount of change in fair value attributable to changes in credit risk to be presented in other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRS 10 Consolidated Financial Statements
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — *Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The mentioned changed is not expected to have any material effect on the Group`s financial statements.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)
IFRS 11 Joint Arrangements
IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group expects that adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. Adoption of the revised standard will have no impact on the Group's consolidated financial statements,

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. Adoption of the revised standard will have no impact on the Group's consolidated financial statements,

Amendments to IFRS 7 "Financial Instruments: Disclosures"
The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment will not have no impact on the Group`s financial statements.

Amendments to IAS 12 "Income Taxes" – Deferred tax: Recovery of underlying assets
In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group now evaluates the impact of the adoption of these amendments.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The Group expects that these amendments will have no impact on the Group's financial position.

Standards and interpretations issued but not yet effective (continued)

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income
The amendments to IAS 1 Presentation of Financial Statements, effective for annual periods beginning on or after 1 July 2012, change the grouping of items presented in other comprehensive income. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The Group now evaluates the impact of the adoption of these amendments.

Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
These amendments to IFRS 1, effective for annual periods beginning on or after 1 July 2011, introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. The Group expects that these amendments will have no impact on the Group's financial position.

4. Significant accounting judgments and estimates

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

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in 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 the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Determination of collateral value

Management monitors market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value to reflect current circumstances. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

Initial recognition of related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 26.

(Thousands of Georgian Lari)

4. Significant accounting judgments and estimates (continued)

Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Going concern

Notwithstanding that as of 31 December 2011 the Group has accumulated losses of GEL20,513 thousand and negative liquidity gap for within one year (Note 25), management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources.

Below are the actions being undertaken by the Group to address going concern, including ability to have access to sufficient resources in order to continue to meet all of its liabilities as they fall due:

- The Bank has access to aggregate of GEL 45,000 thousand (equivalent of USD 27 million) credit facility, in the form of swaps and other credit lines, with major local banks in Georgia. That amount is in access of swap and other applicable facilities. From the beginning of 2012 the interbank borrowing of the Bank varied between GEL 1 to 8 million with average annual interest rate of 4 % to 6.51%. Because of reasonably high liquidity of local commercial banks, the interbank facility is not expensive and can be obtained with 4% to 7% annual interest rate for the period from overnight to six months. It should also be taken into account that currently the Bank has not been using the available facilities. Management believes such credit limits will be adequate to cover liquidity gap up to 12 months.

- Management believes that based on history of customer relationship that even though majority of customer funds are kept in current accounts on demand they provide longer term and stable funding. Please refer to Note 25 for the purposes of maturity analysis of financial assets and liabilities.

  During 2011 management of the Bank has further increased its loan portfolio and customer accounts. This was continuation of the improved performance trend of the Group, started in 2010. Consistent loan portfolio and customers accounts growth resulted into increased net interest and fee and commission expense income in 2011. As a result the Bank more than doubled income before tax, if compared to 2010. The management believes that the increasing positive trend will continue within the foreseeable future.

- During 2011 the Group received additional capital injection amount of GEL 24,516 thousand. Additional capital amount led to improved capital adequacy ratios calculated in accordance with the requirements of National Bank of Georgia. This has resulted into improved negative liquidity gap of up to year of GEL 27,520 thousand, if compared to 2010 (GEL 43,239 thousand). It is the management`s intention to focus on acquiring long term funding from alternative sources during 2012, which will further eliminate the negative liquidity gap of up to 1 year.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2011	*2010*
Cash on hand	13,021	15,371
Correspondent accounts and overnight placements with other banks	3,383	3,697
Cash balances with NBG (other than mandatory reserve deposit)	12,036	10,788
Placements with other banks with original maturities of less than three months	13,506	-
Total cash and cash equivalents	**41,946**	**29,856**

As of 31 December 2011 GEL 2,820 (2010: GEL 3,076) was placed on current and time deposit accounts with internationally recognized OECD banks that are counterparties of the Group in performing international settlements.

(Thousands of Georgian Lari)

6. Loans to customers

Loans to customers comprise:

	2011	*2010*
Corporate loans	74,220	61,841
Gold pawn loans	70,818	55,116
Consumer loans	26,581	22,672
Mortgage loans	14,950	12,566
Loans to individuals - entrepreneurs	10,885	6,317
Gross loans to customers	**197,454**	**158,512**
Less – Allowance for impairment	(10,581)	(9,353)
Loans to customers	**186,873**	**149,159**

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate loans 2011	*Consumer loans 2011*	*Individuals entre-preneurs 2011*	*Mortgage loans 2011*	*Gold Pawn loans 2011*	*Total 2011*
At 1 January 2011	**5,174**	**2,589**	**503**	**1,087**	**-**	**9,353**
(Reversal) charge for the year	1,668	484	217	(524)	-	1,845
Recoveries	-	49	32	-	-	81
Amounts written off	(149)	(338)	(11)	(176)	-	(674)
Interest accrued on impaired loans	(5)	-	-	(19)	-	(24)
At 31 December 2011	**6,688**	**2,784**	**741**	**368**	**-**	**10,581**
Individual impairment	5,209	2,540	515	182	-	8,446
Collective impairment	1,479	244	226	186	-	2,135
	6,688	**2,784**	**741**	**368**	**-**	**10,581**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,908**	**2,811**	**1,734**	**872**	**-**	**14,325**

	Corporate loans 2010	*Consumer loans 2010*	*Individuals entre-preneurs 2010*	*Mortgage loans 2010*	*Gold Pawn loans 2010*	*Total 2010*
At 1 January 2009	**6,062**	**2,171**	**2,132**	**466**	**-**	**10,831**
(Reversal) charge for the year	(465)	874	(1,084)	650	-	(25)
Recoveries	17	-	-	-	-	17
Amounts written off	(421)	(401)	(539)	(8)	-	(1,369)
Interest accrued on impaired loans	(19)	(55)	(6)	(21)	-	(101)
At 31 December 2010	**5,174**	**2,589**	**503**	**1,087**	**-**	**9,353**
Individual impairment	4,321	2,231	438	871	-	7,861
Collective impairment	853	358	65	216	-	1,492
	5,174	**2,589**	**503**	**1,087**	**-**	**9,353**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**9,372**	**3,225**	**1,034**	**2,978**	**-**	**16,609**

Interest income accrued on loans, for which individual impairment allowances have been recognized for the year ended 31 December 2011 comprised GEL1,069 (2010: GEL 1,427).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2011 amounts to GEL 16,744 (2010: GEL 20,717).

(Thousands of Georgian Lari)

6. Loans to customers (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As of 31 December 2011, the Group had a concentration of loans represented by GEL 45,773 due from the ten largest third party borrowers (23.18% of gross loan portfolio) (2010: GEL 37,500 or 23.66%). An allowance of GEL 2,494 (2010: GEL 2,494) was recognised against these loans.

As at 31 December 2011, the Bank is in breached of the National Bank of Georgia prudential ratio requirement, “Loan to one Insider”. The coefficient amounted to 12.46%, as compared to maximum of 5% per National Bank of Georgia. The management anticipates that the loan will be repaid in 2012.

Loans have been extended to the following types of customers:

	2011	*2010*
Private companies	137,785	115,440
State controlled enterprises	8,223	3,218
Individuals	51,446	39,854
	197,454	**158,512**

Loans are made principally within Georgia in the following industry sectors:

	2011		*2010*	
	Amount	**%**	**Amount**	**%**
Gold pawn loans	70,818	35.88	55,116	34.77
Trading and service sector	50,788	25.72	46,231	29.17
Individuals	51,446	26.05	39,854	25.14
Construction sector	15,879	8.04	8,795	5.55
Agriculture and food processing	1,683	0.85	2,725	1.72
Energy sector	58	0.03	-	-
Transportation and communications sector	1	0.00	36	0.02
Other sector	6,781	3.43	5,755	3.63
	197,454	**100.00**	**158,512**	**100.00**

7. Investment securities held to maturity

Held-to-maturity securities comprise:

	2011	*2010*
Treasury bills of the Ministry of Finance	4,694	2,704
Treasury bonds of the Ministry of Finance	4,130	-
Held-to-maturity securities	**8,824**	**2,704**

(Thousands of Georgian Lari)

7. Investment securities held to maturity (continued)

Contractual interest rates and maturities of these securities are as follows:

	31 December 2010		*31 December 2010*	
	%	*Maturity*	*%*	*Maturity*
Treasury bills of the Ministry of Finance	9.42%	2012	13.28%	2011
Treasury bonds of the Ministry of Finance	11.87%	2013	-	-

8. Premises and equipment

The movements in premises and equipment were as follows:

	Land	*Premises*	*Office and computer equipment*	*Vehicles*	*Furniture, fixtures and other fixed assets*	*Leasehold improve-ments*	*Total*
Cost							
31 December 2010	**-**	**11,652**	**2,637**	**902**	**5,191**	**5,135**	**25,517**
Additions*	32	418	115	77	1,175	43	1,860
Disposals	-	-	-	(316)	(11)	(613)	(940)
Transfers	-	1,442	-	-	(1,448)	6	-
31 December 2011	**32**	**13,512**	**2,752**	**663**	**4,907**	**4,571**	**26,437**
Accumulated depreciation							
31 December 2010	**-**	**954**	**1,556**	**529**	**2,382**	**2,531**	**7,952**
Depreciation charge	-	498	546	168	1,077	605	2,894
Disposals	-	-	-	(273)	(5)	(299)	(577)
31 December 2011	**-**	**1,452**	**2,102**	**424**	**3,454**	**2,837**	**10,269**
Net book value:							
31 December 2010	**-**	**10,698**	**1,081**	**373**	**2,809**	**2,604**	**17,565**
31 December 2011	**32**	**12,060**	**650**	**239**	**1,453**	**1,734**	**16,168**

** 2011 disposals include non-cash disposals of premises and equipment in the amount of GEL 74.*

	Premises	*Office and computer equipment*	*Vehicles*	*Furniture, fixtures and other fixed assets*	*Leasehold improve-ments*	*Total*
Cost						
31 December 2009	**11,652**	**2,302**	**994**	**3,800**	**5,553**	**24,301**
Additions	-	374	23	1,939	38	2,374
Disposals	-	(39)	(115)	(149)	(855)	(1,158)
Transfers	-	-	-	(399)	399	-
31 December 2010	**11,652**	**2,637**	**902**	**5,191**	**5,135**	**25,517**
Accumulated depreciation						
31 December 2009	**486**	**998**	**362**	**1,509**	**1,675**	**5,030**
Depreciation charge	468	605	229	993	1,181	3,476
Disposals	-	(47)	(62)	(120)	(325)	(554)
31 December 2010	**954**	**1,556**	**529**	**2,382**	**2,531**	**7,952**
Net book value:						
31 December 2009	**11,166**	**1,304**	**632**	**2,291**	**3,878**	**19,271**
31 December 2010	**10,698**	**1,081**	**373**	**2,809**	**2,604**	**17,565**

(Thousands of Georgian Lari)

9. Goodwill

Impairment testing of goodwill

The entire Bank currently represents the business continuation of JSC Standard Bank and as such is treated by management as one cash generating unit ("CGU"). The carrying amount of goodwill allocated to the cash-generating unit as at 31 December 2011 amounts to GEL 20,374.

Management believes that investment in the acquired bank was in line with the shareholders' long-term expansion strategy in the region and that any excess amount paid to acquire JSC Standard Bank will provide future economic benefits beyond a five year period. Accordingly, the recoverable amount of CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year period. Based on long-term strategy of the Bank, management estimates that CGU will generate cash flow of more than ten years. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of revenue by 5% constantly.

The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

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

	2011	***2010***
Growth rate for five years	15% p.a.	15% p.a.
Growth rate beyond five years	5% p.a.	5% p.a.
Pre-tax discount rate	8.8% p.a.	9.9% p.a.

Management determined budgeted operating results based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports.

The discount rates used are pre-tax and reflect specific risks relating to the CGU.

10. Other intangible assets

The movements in other intangible assets were as follows:

	Customer relationships	***Computer software licenses***	***Total***
Cost			
31 December 2010	**13,657**	**1,375**	**15,032**
Additions	-	31	31
31 December 2011	**13,657**	**1,406**	**15,063**
Accumulated amortization and impairment			
31 December 2010	**3,854**	**501**	**4,355**
Amortisation charge	1,366	420	1,786
31 December 2011	**5,220**	**921**	**6,141**
Net book value:			
31 December 2010	**9,803**	**874**	**10,677**
31 December 2011	**8,437**	**485**	**8,922**

(Thousands of Georgian Lari)

10. Other intangible assets (continued)

	Customer relationships	*Computer software licenses*	*Total*
Cost			
31 December 2009	**13,657**	**857**	**14,514**
Additions	-	520	520
Disposals	-	(2)	(2)
31 December 2010	**13,657**	**1,375**	**15,032**
Accumulated amortization and impairment			
31 December 2009	**2,488**	**228**	**2,716**
Amortisation charge	1,366	275	1,641
Disposals	-	(2)	(2)
31 December 2010	**3,854**	**501**	**4,355**
Net book value:			
31 December 2009	**11,169**	**629**	**11,798**
31 December 2010	**9,803**	**874**	**10,677**

11. Taxation

The corporate income tax expense comprises:

	2011	*2010*
Current tax charge	-	(32)
Deferred tax benefit (charge)– origination and reversal of temporary differences	741	(436)
Income tax benefit/(expense)	**741**	**(468)**

The income tax rate applicable to the majority of the Group's 2011 income is 15% (2010: 15%).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2011	*2010*
Profit before income tax	**2,770**	**1,071**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**(416)**	**(161)**
Tax effect of items which are not deductible for taxation purposes		
Leasehold improvements	(129)	(204)
Reversal for unrecognised deferred tax assets (Unused tax losses carried forward)	1,172	-
Interest Income from HTM Securities	116	-
Interest Income from Deposits in resident Banks	49	-
Other	(51)	(103)
Income tax benefit (expense)	**741**	**(468)**

(Thousands of Georgian Lari)

11. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	2009	*In the income statement*	*2010*	*In the income statement*	*2011*
Tax effect of taxable temporary differences:					
Tax losses carried forward	3,434	-	3,434	(386)	3,048
Loans to customers	6	(175)	(169)	263	94
Other assets	131	(54)	77	(66)	11
Other liabilities	(211)	211	-	-	-
Gross deferred tax assets	**3,360**	**(18)**	**3,342**	**(189)**	**3,153**
Unrecognised deferred tax assets	(2,402)	-	(2,402)	1,172	(1,230)
Deferred tax assets	**958**	**(18)**	**940**	**983**	**1,923**
Tax effect of deductible temporary differences:					
Intangible assets, including goodwill	(573)	(219)	(792)	(374)	(1,166)
Premises and equipment	(385)	(199)	(584)	186	(398)
Amounts due to customers	-	-	-	(54)	(54)
Deferred tax liabilities	**(958)**	**(418)**	**(1,376)**	**(242)**	**(1,618)**
Deferred tax assets/ (liabilities)	**-**	**(436)**	**(436)**	**741**	**305**

In accordance with Georgian tax legislation business and capital losses may be carried forward for up to 5 years. As of 31 December 2011 tax loss carry forward amounts of GEL 2,049 thousand and GEL 999 thousand will expire on 31 December 2013 and 31 December 2014, respectively.

12. Other financial assets and liabilities

Other financial assets comprise:

	2011	*2010*
Settlements on money transfer operations	188	212
Restricted cash	175	362
Derivative financial asset (swap)	-	954
Other accrued assets	309	-
Other financial assets	**672**	**1,528**

Restricted cash represents balances on correspondent accounts with Georgian banks, JSC TBC Bank and JSC Liberty Bank placed by the Bank as guarantees for transactions performed by the Bank's customers and processed by respective counterparty banks.

Other financial liabilities comprise:

	2011	*2010*
SWAP agreements	382	-
Debit or credit card payables	355	382
Settlements on money transfer operations	209	291
Financial liabilities from services received	178	-
Other accrued liabilities	159	122
Other financial liabilities	**1,283**	**795**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2011		***2010***	
	Notional amount	***Fair value Liabilities***	***Notional amount***	***Fair value Asset***
Foreign exchange contracts				
Swaps – domestic	90,294	382	49,869	954
Total derivative assets/liabilities		**382**		**954**

(Thousands of Georgian Lari)

13. Other assets and liabilities

Other assets comprise:

	2011	*2010*
Repossessed collaterals	4,335	1,577
Other tax prepayments	126	98
Prepayments for services	109	321
Other	179	25
Other assets	**4,749**	**2,021**

Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose the assets in the foreseeable future. However, the assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2, *Inventories*. These assets were initially recognized at lower of cost or net realizable value when acquired.

Other liabilities comprise:

	2011	*2010*
Liabilities for payments to utility companies	26	31
Taxes payable other than on income	-	4
Other	33	18
Other liabilities	**59**	**53**

14. Amounts due to credit institutions

As of 31 December 2011 amounts due to credit institutions is comprised of GEL 279 short-term placements with Georgian banks. As of 31 December 2010 GEL 2,801 represented short-term loan payable to the National Bank of Georgia.

15. Amounts due to customers

Amounts due to customers comprise:

	2011	*2010*
Current accounts	146,813	128,497
Time deposits	71,845	46,874
Amounts due to customers	**218,658**	**175,371**
Held as security against guarantees issued	(1,383)	(264)

At 31 December 2011, amounts due to customers of GEL 120,239 (55%) were due to the ten largest customers (GEL 88,746 (50.6%)).

Amounts due to customers comprise the following types of customers:

	2011	*2010*
State and budgetary organisations	81,503	38,865
Individuals	73,779	77,144
Private enterprises	63,376	59,362
Customer accounts	**218,658**	**175,371**

(Thousands of Georgian Lari)

15. Amounts due to customers (continued)

An analysis of amounts due to customers by economic sector follows:

	2011		2010	
	Amount	%	Amount	%
Non-profit organizations	83,894	38.37	41,501	23.66
Individuals	73,779	33.74	77,144	43.99
Trade and service	18,467	8.45	18,924	10.79
Construction	14,348	6.56	16,354	9.33
Transport and communication	8,055	3.68	5,102	2.91
Energy	7,656	3.5	8,611	4.91
Other	12,459	5.7	7,735	4.41
Amounts due to customers	**218,658**	**100.0**	**175,371**	**100.00**

16. Subordinated debts

Subordinated debts comprise:

	2011	2010
Standard Capital Georgia Ltd (US dollar denominated, granted 29 September 2005; 10 equal annual payments with annual interest rate of 11%, maturing 29 September 2025)	5,037	5,346
Standard Capital Georgia Ltd (US dollar denominated, granted 15 December 2006; 10 equal annual payments, with annual interest rate of 11%, maturing 15 December 2026)	3,371	3,578
Subordinated debts	**8,408**	**8,924**

The debts rank after all other creditors in case of liquidation.

17. Equity

As of 31 December 2011, authorized, issued and fully paid share capital comprised of 995 common shares (2010: 750). Each share has a nominal value of GEL 100 (2010: GEL 100). Each ordinary share carries one vote.

On 18 May 2011 the shareholders of the Bank approved the issue of 245 thousands ordinary shares. Cash contribution of GEL 24,516 was received in 2011.

Shares issued and outstanding as at 31 December 2011 are described below:

	Number of shares Ordinary	Amount of shares Ordinary
31 December 2009 and 2010	**750**	**75,000**
Increase in share capital	245	24,516
31 December 2011	**995**	**99,516**

(Thousands of Georgian Lari)

18. Commitments and contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Financial commitments and contingencies

As of 31 December the Group's commitments and contingencies comprised the following:

	2011	*2010*
Credit related commitments		
Undrawn loan commitments	5,333	4,616
Guarantees issued	1,947	514
	7,280	**5,130**
Operating lease commitments		
Not later than 1 year	1,743	1,878
Later than 1 year but not later than 5 years	3,754	4,179
Later than 5 years	291	588
	5,788	**6,645**
Capital expenditure commitments	-	196
Commitments and contingencies (before deducting collateral)	**13,068**	**11,971**
Less – Cash held as security against guarantees (Note 15)	(1,383)	(264)
Commitments and contingencies	**11,685**	**11,707**

19. Interest income and expense

Interest income and expense comprises:

	2011	*2010*
Loans to customers	31,081	32,547
Amounts due from other banks	5,087	2,972
Investment securities held to maturity	775	55
Total interest income	**36,943**	**35,574**
Amounts due to customers	13,566	15,122
Amounts due to credit institutions	2,798	1,607
Subordinated debts	928	981
Total interest expense	**17,292**	**17,710**
Net interest income	**19,651**	**17,864**

20. Fee and commission income and expenses

Fee and commission income comprises:

	2011	*2010*
Cash collection	2,739	1,632
Cash transactions	1,351	1,325
Settlement transactions	605	504
Guarantees issued	33	72
Currency conversion operations	12	340
Fee and commission income	**4,740**	**3,873**

(Thousands of Georgian Lari)

20. Fee and commission income and expenses (continued)

Fee and commission expenses comprise:

Fee expenses for custodial services	1,362	1,730
Currency conversion operations	176	79
Settlement transactions	161	229
Cash transactions	38	34
Other	1,067	979
Fee and commission expense	**2,804**	**3,051**

21. Other operating income

	2011	*2010*
Revenue from fines	144	525
Other	98	40
Total other operating income	**242**	**565**

22. Salaries and administrative and other operating expenses

Personnel expenses comprise:

	2011	*2010*
Personnel expenses	8,745	8,777
Personnel expenses	**8,745**	**8,777**

Administrative and other operating expenses comprise:

Operating lease expense for premises and equipment	2,184	2,480
Taxes other than on income	697	615
Building security expense	482	529
Losses from disposal of premises and equipment	439	469
Repair and maintenance	385	410
Office supplies	380	454
Advertising and marketing services	321	283
Insurance	215	135
Professional services	178	272
Vehicle expenses	176	217
Transportation and cash collection	85	-
Business trip expenses	66	60
Plastic card expenses	52	93
Postal expenses	15	25
Fines and penalties paid	11	6
Other	309	324
Administrative and other operating expenses	**5,995**	**6,372**

(Thousands of Georgian Lari)

23. Risk management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

Credit risk

The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

	Notes	*Maximum exposure 2011*	*Maximum exposure 2010*
Cash and cash equivalents (excluding cash on hand)	5	28,925	14,485
Mandatory reserve deposit with the NBG		18,648	5,294
Loans to customers	6	197,454	158,512
Investment securities	7	8,824	2,704
Other financial assets	12	672	1,528
Other assets	13	4,958	2,198
		259,481	**184,721**
Financial commitments and contingencies	18	7,280	5,326
Total credit risk exposure		**266,761**	**190,047**

The Bank structures the levels 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 geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Bank established a number of credit committees which are responsible for approving credit limits for individual borrowers:

- The Supervisory Board reviews and approves limits above USD 500 thousand equivalent in GEL and meets on a regular basis;
- The senior credit committee reviews and approves limits up to USD 500 thousand equivalent in GEL and meets on a regular basis. It is also responsible for issuing guidance to lower level credit committees;
- The junior credit committees review and approve credit limits below USD 50 thousand equivalent in GEL and meet on a regular basis.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Management Board. The Bank does not use formalised internal credit ratings to monitor exposures to credit risk. Management monitors and follows up on past due balances.

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Group's credit rating system.

		Neither past due nor impaired					
	Notes	High grade 2011	Standard grade 2011	Sub-standard grade 2011	Past due but not impaired 2011	Individually impaired 2011	Total 2011
Mandatory reserve deposit with NBG		18,648	-	-	-	-	18,648
Loans to customers	6						
Corporate lending		4,630	44,989	6,537	9,156	8,908	74,220
Gold pawn loans		70,818	-	-	-	-	70,818
Consumer lending		2,704	3,521	15,879	1,666	2,811	26,581
Mortgage loans		-	13,591	120	367	872	14,950
Individual entrepreneurs		-	4,474	3,964	713	1,734	10,885
		78,152	**66,575**	**26,500**	**11,902**	**14,325**	**197,454**
Investment securities held to maturity	7	8,824	-	-	-	-	8,824
Other financial assets	12	672	-	-	-	-	672
		9,496	**-**	**-**	**-**	**-**	**9,496**
Total		**106,296**	**66,575**	**26,500**	**11,902**	**14,325**	**225,598**

		Neither past due nor impaired					
	Notes	High grade 2010	Standard grade 2010	Sub-standard grade 2010	Past due but not impaired 2010	Individually impaired 2010	Total 2010
Mandatory reserve deposit with NBG		5,294	-	-	-	-	5,294
Loans to customers	6						
Corporate lending		3,608	19,320	1,564	27,977	9,372	61,841
Gold pawn loans		55,116	-	-	-	-	55,116
Consumer lending		2,465	1,417	15,232	333	3,225	22,672
Mortgage loans		508	5,842	71	3,167	2,978	12,566
Individual entrepreneurs		-	1,732	2,103	1,448	1,034	6,317
		61,697	**28,311**	**18,970**	**32,925**	**16,609**	**158,512**
Investment securities held to maturity	7	2,704	-	-	-	-	2,704
Other financial assets	12	1,528	-	-	-	-	1,528
		4,232	**-**	**-**	**-**	**-**	**4,232**
Total		**71,223**	**28,311**	**18,970**	**32,925**	**16,609**	**168,038**

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. The attributable risk ratings are assessed and updated regularly.

The credit risk assessment policy for non-past due and individually non-impaired financial assets has been determined by the Bank as follows:

- ► A financial asset with no overdue days secured by deposit or precious metals is assessed as a financial asset with High Grade; The Group treats mandatory reserve deposit amount with NBG, together with Ministry of Finance treasury bills and bonds as High Grade financial assets.
- ► A financial asset with no overdue days secured by real estate is assessed as a financial asset with Standard Grade;
- ► A financial asset with no overdue days secured by other collateral is assessed as a financial asset with Substandard Grade.

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired loans per class of financial assets

	Less than 30 days 2011	*31 to 60 days 2011*	*61 to 90 days 2011*	*More than 90 days 2011*	*Total 2011*
Loans to customers					
Corporate lending	789	330	-	8,037	9,156
Consumer lending	1,373	91	92	110	1,666
Mortgage loans	148	-	156	63	367
Individual entrepreneurs	57	10	-	646	713
Total	**2,367**	**431**	**248**	**8,856**	**11,902**

	Less than 30 days 2010	*31 to 60 days 2010*	*61 to 90 days 2010*	*More than 90 days 2010*	*Total 2010*
Loans to customers					
Corporate lending	18,214	1,262	-	8,501	27,977
Consumer lending	290	14	-	29	333
Mortgage loans	2,706	211	-	250	3,167
Individual entrepreneurs	653	-	-	795	1,448
Total	**21,863**	**1,487**	**-**	**9,575**	**32,925**

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Group held as at 31 December 2011 was GEL 16,744 (2010: GEL 20,717). See ‘Collateral and other credit enhancements’ in Note 6 for the details of types of collateral held.

See Note 6 for more detailed information with respect to the allowance for impairment of loans to customers.

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

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2011	*2010*
Loans to customers		
Corporate lending	8,731	6,210
Consumer lending	177	54
Mortgage loans	310	105
Individual entrepreneurs	79	69
Total	**9,297**	**6,438**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty’s business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees are assessed and provision made in a similar manner as for loans.

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

	2011				*2010*			
	Georgia	*OECD*	*CIS and other foreign banks*	*Total*	*Georgia*	*OECD*	*CIS and other foreign banks*	*Total*
Assets:								
Cash and cash equivalents	39,004	2,820	122	41,946	26,493	3,076	287	29,856
Mandatory reserve deposit with the NBG	18,648	-	-	18,648	5,294	-	-	5,294
Loans to customers	186,873	-	-	186,873	149,159	-	-	149,159
Investment securities held to maturity	8,824	-	-	8,824	2,704	-	-	2,704
Other financial assets	672	-	-	672	1,528	-	-	1,528
All other assets	50,727	-	-	50,727	50,814	-	-	50,814
	304,748	**2,820**	**122**	**307,690**	**235,992**	**3,076**	**287**	**239,355**
Liabilities:								
Amounts due to credit institutions	279	-	-	279	2,801	-	-	2,801
Amounts due to customers	216,914	1,744	-	218,658	165,121	10,250	-	175,371
Other financial liabilities	1,283	-	-	1,283	795	-	-	795
Subordinated debts	8,408	-	-	8,408	8,924	-	-	8,924
All other liabilities	59	-	-	59	489	-	-	489
	226,943	**1,744**	**-**	**228,687**	**178,130**	**10,250**	**-**	**188,380**
Net assets/(liabilities)	**77,805**	**1,076**	**122**	**79,003**	**57,862**	**(7,174)**	**287**	**50,975**

Liquidity risk and funding management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. It refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. The Management Board and Supervisory Board set limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals under both normal and stressed conditions. They also set parameters for the risk diversification of the liability base.

(Thousands of Georgian Lari)

23. Risk management (continued)

Liquidity risk and funding management (continued)

The Bank's liquidity policy is comprised of the following:

- Projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;
- Maintaining a funding plan commensurate with the Bank's strategic goals;
- Maintaining a diverse range of funding sources thereby increasing the Bank's borrowing capacity, domestically as well as from foreign sources;
- Maintaining highly liquid and high-quality assets;
- Adjusting its product base by time bands against available funding sources;
- Daily monitoring of liquidity ratios against regulatory requirements; and
- Constant monitoring of asset and liability structures by time-bands.

Treasury function within the Bank is charged with the following responsibilities:

- Compliance with the liquidity requirements of the NBG as well as with the liquidity requirement covenants contained in the agreements with foreign lending sources;
- Daily reports to management, including reporting to management on the forecast levels of cash flows in the main currencies (GEL, USD, EUR), cash positions, statement of financial position changes;
- Constantly controlling/monitoring the level of liquid assets;
- Monitoring of deposit and other liability concentrations; and
- Maintaining a plan for the instant increase of cash to provide liquidity under stressed conditions.

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on certain liquidity ratios established by the NBG. As at 31 December, these ratios were as follows:

	2011, %	*2010, %*
Average liquidity ratio for the year	41.14%	30.13%
Maximum liquidity ratio	48.39%	35.97%
Minimum liquidity ratio	31.48%	23.42%

Average liquidity ratio of the Bank for 2011, in accordance with the NBG liquidity regulation, comprises 41.14% (2010: 30.13%) as compared to the minimum required of 30%.

ALCO is responsible for ensuring that Treasury properly manages the Bank's liquidity position. The Risk Management Department is responsible for controlling these activities. Decisions on liquidity positions and management are made by the Management Board.

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As at 31 December 2011	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	279	-	-	-	279
Amounts due to customers	183,289	32,882	5,485	2,613	224,269
Other financial liabilities	1,283	-	-	-	1,283
Subordinated debts	284	689	3,675	17,740	22,388
Total undiscounted financial liabilities	**185,135**	**33,571**	**9,160**	**20,353**	**248,219**

(Thousands of Georgian Lari)

23. Risk management (continued)

Liquidity risk and funding management (continued)

Financial liabilities As at 31 December 2010	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	2,803	-	-	-	2,803
Amounts due to customers	139,793	28,407	8,188	2,921	179,309
Other financial liabilities	795	-	-	-	795
Subordinated debts	240	735	3,901	18,830	23,706
Total undiscounted financial liabilities	**143,631**	**29,142**	**12,089**	**21,751**	**206,613**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2011	6,167	2,786	3,829	286	13,068
2010	5,429	1,775	4,179	588	11,971

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above (Note 4).

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2011 and 2010 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	***Change in currency rate in % 2011***	***Effect on profit before tax 2011***	***Change in currency rate in % 2010***	***Effect on profit before tax 2010***
USD	1	(2.7)	(2.06)	(5)
EUR	(2.86)	1	(2.29)	1

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 a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(Thousands of Georgian Lari)

24. Fair values of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2011	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial liabilities				
Derivative financial instruments	-	382	-	382
	-	**382**	**-**	**382**

At 31 December 2010	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial instruments	-	954	-	954
	-	**954**	**-**	**954**

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are currency swaps contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the foreign exchange spot rates.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2011	***Fair value 2011***	***Unrecognised gain/(loss) 2011***	***Carrying value 2010***	***Fair value 2010***	***Unrecognised gain/(loss) 2010***
Financial assets						
Cash and cash equivalents	41,946	41,946	-	29,856	29,856	-
Mandatory reserve deposit with the NBG	18,648	18,648	-	5,294	5,294	-
Loans to customers	186,873	186,503	(370)	149,159	144,543	(4,616)
Investment securities - held-to-maturity	8,824	8,824	-	2,704	2,704	-
Other financial assets	672	672	-	1,528	1,528	-
Financial liabilities						
Amounts due to credit institutions	279	279	-	2,801	2,801	-
Amounts due to customers	218,658	218,658	-	175,371	175,371	-
Subordinated debts	8,408	8,408	-	8,924	8,924	-
Other financial liabilities	1,283	1,283	-	795	795	-
Total unrecognised change in unrealised fair value			**(370)**			**(4,616)**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

(Thousands of Georgian Lari)

24. Fair values of financial instruments (continued)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three 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 specific maturity.

Fixed rate financial instruments

The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

25. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 23 “Risk management” for the Group’s contractual undiscounted repayment obligations.

	2011			2010		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	41,946	-	**41,946**	29,856	-	**29,856**
Mandatory reserve deposit with the NBG	18,648	-	**18,648**	5,294	-	**5,294**
Loans to customers	120,386	66,487	**186,873**	87,384	61,775	**149,159**
Investment securities - held-to-maturity	4,694	4,130	**8,824**	2,704	-	**2,704**
Other financial assets	672	-	**672**	1,528	-	**1,528**
Total	**186,346**	**70,617**	**256,963**	**126,766**	**61,775**	**188,541**
Amounts due to credit institutions	279	-	**279**	2,801	-	**2,801**
Amounts due to customers	212,250	6,408	**218,658**	166,351	9,020	**175,371**
Subordinated debts	55	8,353	**8,408**	58	8,866	**8,924**
Other financial liabilities	1,283	-	**1,283**	795	-	**795**
Total	**213,867**	**14,761**	**228,628**	**170,005**	**17,886**	**187,891**
Net	**(27,521)**	**55,856**	**28,335**	**(43,239)**	**43,889**	**650**

The Group’s capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. The undiscounted financial liability gap does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above. Refer to Note 4 for the Bank`s management judgment and discussion related to liquidity gap.

26. Related party disclosures

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end and related income and expenses for the year are as follows:

	2011		2010	
	Entities under common control	Key management personnel	Entities under common control	Key management personnel
Loans and advances to customers	7,882	-	6,745	-
Amounts due to customers	336	-	338	-
Other financial assets	-	-	-	-
Interest income on loans	595	1	941	2
Interest expense on deposits	20	1	28	4

(Thousands of Georgian Lari)

26. Related Party disclosures (continued)

Compensation of key management personnel was comprised of the following:

	2011	*2010*
Salaries and other short-term benefits	898	723
Total key management personnel compensation	**898**	**723**

27. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the National Bank of Georgia in supervising the Bank.

The primary objectives of the Group's capital management are (i) to ensure that the Bank complies with externally imposed capital requirements set by National Bank of Georgia, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain sufficient capital base to achieve a capital adequacy ratio of at least 12%. Compliance with capital adequacy ratios set by National Bank of Georgia is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and Chief Accountant subsequently submitted to NBG.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets, computed based on Bank's standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As of 31 December 2011 and 2010, the Bank's capital adequacy ratio on this basis was as follows:

	2011	*2010*
Core capital	43,641	16,843
Supplementary capital	14,592	11,795
Less: Deductions from capital	(500)	(500)
Total regulatory capital	**57,733**	**28,138**
Risk weighted assets	**408,350**	**290,303**
Total Capital adequacy ratio	**14.14%**	**9.69%**

The Bank has not complied with externally imposed capital requirements at 31 December 2010. As at 31 December 2010 total capital adequacy ratio calculated based on the reports submitted to NBG was 9.69%, which is below the minimum requirement of 12%. The non-compliance to such externally imposed capital requirements lead to imposition of restriction of distribution of dividends. During 2010 and up to report issue date no other penalties or adverse actions were imposed by NBG. Management became compliant with capital requirements since May 2011 after additional capital injection of USD 15 million from its shareholders (Note 17).

As at 31 December 2011 the Bank has complied with externally imposed capital requirements.