

**JSC BasisBank**

**Consolidated Financial Statements  
for the year ended 31 December 2012**

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## **Independent Auditors' Report**

To the Supervisory Board  
JSC BasisBank

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

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *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 about whether the consolidated financial statements are free of material misstatement.

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

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

### *Opinion*

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

*Tbilisi branch of KPMG CIS Limited*  
Tbilisi Branch of KPMG CIS Limited  
18 April 2013

*JSC BasisBank*  
*Consolidated Statement of Comprehensive Income for the year ended 31 December 2012*

	Notes	2012 GEL'000	2011 GEL'000
Interest income	4	15,032	14,479
Interest expense	4	(7,619)	(6,924)
<b>Net interest income</b>		<b>7,413</b>	<b>7,555</b>
Fee and commission income	5	3,334	3,605
Fee and commission expense	6	(1,718)	(1,547)
<b>Net fee and commission income</b>		<b>1,616</b>	<b>2,058</b>
Net foreign exchange income	7	1,758	1,806
Other operating income	8	1,594	2,051
<b>Operating income</b>		<b>12,381</b>	<b>13,470</b>
Impairment losses	9	(71)	(1,019)
Personnel expenses	10	(5,547)	(4,976)
Other general administrative expenses	11	(3,395)	(3,956)
<b>Profit before income tax</b>		<b>3,368</b>	<b>3,519</b>
Income tax benefit (expense)	12	27	(414)
<b>Profit for the year</b>		<b>3,395</b>	<b>3,105</b>
<b>Other comprehensive income, net of income tax</b>			
Net change in fair value of available-for-sale financial assets		265	227
<b>Other comprehensive income for the year, net of income tax</b>		<b>265</b>	<b>227</b>
<b>Total comprehensive income for the year</b>		<b>3,660</b>	<b>3,332</b>
<b>Total comprehensive income attributable to:</b>			
- Equity holders of the Bank		3,660	3,332
- Non-controlling interests		-	-
<b>Total comprehensive income for the year</b>		<b>3,660</b>	<b>3,332</b>

The consolidated financial statements as set out on pages 4 to 61 were approved by management on 18 April 2013 and were signed on its behalf by:

David Tsaava  
 General Director

Lia Aslanikashvili  
 Chief Financial Officer

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

**JSC BasisBank**  
*Consolidated Statement of Financial Position as at 31 December 2012*

	Notes	2012 GEL'000	2011 GEL'000
<b>ASSETS</b>			
Cash		12,985	11,747
Due from the National Bank of Georgia	13	18,301	13,128
Placements with banks	14	14,525	9,905
Available-for-sale financial assets			
- Held by the Group	15	28,872	14,376
- Pledged under sale and repurchase agreements	15	-	5,695
Loans to customers	16	94,525	72,264
Assets held for sale	17	5,973	1,953
Investment property		1,055	1,295
Property and equipment	18	14,882	15,370
Intangible assets		199	231
Other assets	19	10,400	13,388
<b>Total assets</b>		<b>201,717</b>	<b>159,352</b>
<b>LIABILITIES</b>			
Deposits and balances from banks	20	5,318	5,353
Amounts payable under repurchase agreements	21	-	5,502
Current accounts and deposits from customers	22	116,063	98,211
Subordinated borrowings	23	3,319	3,462
Other borrowed funds	23	20,668	18,470
Deferred tax liability	12	1,025	1,005
Other liabilities	24	1,175	1,711
<b>Total liabilities</b>		<b>147,568</b>	<b>133,714</b>
<b>EQUITY</b>			
Share capital	25	9,079	5,912
Share premium	25	27,296	5,612
Revaluation surplus for buildings		2,361	2,361
Revaluation reserve for available-for-sale financial assets		492	227
Retained earnings		14,671	11,276
<b>Total equity attributable to equity holders of the Bank</b>		<b>53,899</b>	<b>25,388</b>
Non-controlling interests		250	250
<b>Total equity</b>		<b>54,149</b>	<b>25,638</b>
<b>Total liabilities and equity</b>		<b>201,717</b>	<b>159,352</b>

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

**JSC BasisBank**  
Consolidated Statement of Cash Flows for the year ended 31 December 2012

	Notes	2012 GEL'000	2011 GEL'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest and fee and commission receipts		16,658	16,497
Interest and fee and commission payments		(9,008)	(8,469)
Net receipts from foreign exchange		1,791	1,887
Other income receipts		1,603	1,241
Personnel expenses and other general administrative expenses payments		(8,129)	(7,411)
Proceeds from disposal of assets held for sale		6	752
Proceeds from disposal of repossessed assets		230	43
<b>(Increase) decrease in operating assets</b>			
Due from the National Bank of Georgia		(3,340)	(6,605)
Placements with banks		(5,584)	(3,023)
Loans to customers		(23,630)	(12,810)
Other assets		(83)	(138)
<b>Increase (decrease) in operating liabilities</b>			
Deposits and balances from banks		(10)	5,005
Amounts payable under repurchase agreements		(5,502)	3,500
Current accounts and deposits from customers		17,003	5,137
Other liabilities		(605)	167
<b>Cash flows used in operations</b>		<b>(18,600)</b>	<b>(4,227)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of available-for-sale financial assets		(53,803)	(28,967)
Sales and repayment of available-for-sale financial assets		46,933	10,449
Sale and repayment of held-to-maturity investments		-	9,432
Sale of property and equipment		-	75
Purchases of property and equipment		(315)	(821)
Purchases of intangible assets		(17)	-
Sale of investment property		-	580
<b>Cash flows used in investing activities</b>		<b>(7,202)</b>	<b>(9,252)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Receipts of subordinated borrowings		-	3,462
Repayments of subordinated borrowings		(143)	-
Receipts of other borrowed funds		15,009	5,011
Repayments of other borrowed funds		(12,778)	(3,490)
Proceeds from issuance of share capital		24,851	-
<b>Cash flows from financing activities</b>		<b>26,939</b>	<b>4,983</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>1,137</b>	<b>(8,496)</b>
Effect of changes in exchange rates on cash and cash equivalents		613	(331)
Cash and cash equivalents as at the beginning of the year		21,854	30,681
<b>Cash and cash equivalents as at the end of the year</b>	32	<b>23,604</b>	<b>21,854</b>

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

**JSC BasisBank**  
Consolidated Statement of Changes in Equity for the year ended 31 December 2012

GEL'000	Attributable to equity holders of the Bank						Non- controlling interests	Total equity
	Share capital	Share premium	Revaluation surplus for buildings	Revaluation reserve for available-for- sale financial assets	Retained earnings	Total		
<b>Balance as at 1 January 2011</b>	5,912	5,612	2,361	-	8,171	22,056	250	22,306
<b>Total comprehensive income</b>								
Profit for the year	-	-	-	-	3,105	3,105	-	3,105
<b>Other comprehensive income</b>								
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	227	-	227	-	227
Total other comprehensive income	-	-	-	227	-	227	-	227
<b>Total comprehensive income for the year</b>	-	-	-	227	3,105	3,332	-	3,332
<b>Balance as at 31 December 2011</b>	<b>5,912</b>	<b>5,612</b>	<b>2,361</b>	<b>227</b>	<b>11,276</b>	<b>25,388</b>	<b>250</b>	<b>25,638</b>
<b>Balance as at 1 January 2012</b>	5,912	5,612	2,361	227	11,276	25,388	250	25,638
<b>Total comprehensive income</b>								
Profit for the year	-	-	-	-	3,395	3,395	-	3,395
<b>Other comprehensive income</b>								
Net change in fair value of available-for-sale financial assets, net of income tax	-	-	-	265	-	265	-	265
Total other comprehensive income	-	-	-	265	-	265	-	265
<b>Total comprehensive income for the year</b>	-	-	-	265	3,395	3,660	-	3,660
<b>Transactions with owners, recorded directly in equity</b>								
Shares issued	3,167	21,684	-	-	-	24,851	-	24,851
<b>Total transactions with owners</b>	<b>3,167</b>	<b>21,684</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,851</b>	<b>-</b>	<b>24,851</b>
<b>Balance as at 31 December 2012</b>	<b>9,079</b>	<b>27,296</b>	<b>2,361</b>	<b>492</b>	<b>14,671</b>	<b>53,899</b>	<b>250</b>	<b>54,149</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

# 1 Background

## (a) Organisation and operations

These consolidated financial statements include the financial statements of JSC BasisBank (the Bank) and its subsidiaries (together referred to as the Group). The principal subsidiaries of the Bank include asset management and construction companies.

JSC BasisBank is a joint stock bank, which was established in Georgia in 1993. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the National Bank of Georgia (“NBG”). The Bank has 17 branches operating in Georgia.

The registered address of the Bank is 1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia. The majority of the Bank’s assets and liabilities are located in Georgia. The average number of people employed by the Bank during the year was 242 (2011: 251).

### Subsidiaries

As at 31 December 2012 the Bank directly and indirectly held investments in four subsidiaries.

On 28 September 2009, the Bank established Basis Asset Management Limited, an asset management company with 100% ownership. On 28 September 2009 Basis Asset Management Limited acquired 75% of Paladi Imperial Partnership, a construction company. On 29 December 2011 the Bank established a subsidiary, Basis Asset Management – Kobuleti Limited, an asset management company with 100% ownership. On 27 February 2012 the Bank established a subsidiary, Basis Asset Management – Holding Limited, an asset management company with 100% ownership.

The principal subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Ownership %	
			2012	2011
Basis Asset Management Limited	Georgia	Asset management	100%	100%
Basis Asset Management – Kobuleti Limited	Georgia	Asset management	100%	100%
Basis Asset Management – Holding Limited	Georgia	Asset management	100%	-
Paladi Imperial Partnership	Georgia	Construction	75%	75%

### Shareholders

During the year ended 31 December 2012 the majority of shares of the Group owned by individuals were acquired by Xinjiang Hualing Industry & Trade (Group) Co Ltd incorporated in People’s Republic of China. Xinjiang Hualing Industry & Trade (Group) Co Ltd operates in the wholesale, international trade, livestock slaughter, logistic transportation, constructions, hotel and tourism industries.



As at 31 December 2012 and 2011 Bank's shareholders were:

<b>Shareholders</b>	<b>2012</b>	<b>2011</b>
	<b>Ownership interest, %</b>	<b>Ownership interest, %</b>
Xinjiang Hualing Industry & Trade (Group) Co Ltd	93.488%	-
European Bank for Reconstruction and Development (EBRD)	3.256%	15.000%
Zurab Tsikhistavi	3.256%	13.919%
Eldar Mildiani	-	9.887%
Zaza Nishnianidze	-	8.507%
Murman Ambroladze	-	6.582%
Archil Maziashvili	-	6.330%
Ketevan Soselia	-	5.617%
Taras Nijaradze	-	4.576%
Gia Petriashvili	-	4.571%
Giorgi Vachnadze	-	4.444%
Goderzi Meladze	-	4.419%
Tengiz Maziashvili	-	4.381%
Other individuals	-	11.767%

During the year ended 31 December 2012 changes occurred within the Supervisory and Management Board of the Group. Zurab Tsikhistavi remained as the Chairman of the Supervisory Board and Sabina Dziurman remained as EBRD's representative member to the Supervisory Board. Zhang Jun was appointed as the Supervisory Board Executive Chairman. In addition, two new members were appointed to the Supervisory Board: Mi Zaiqi and Zhou Ning, a representative of Chinese Investment Bank Shanghai Tuhong Investment Management Ltd (Tu Hong International). Hui Li joined the Management Board as Deputy General Director in Lending.

Related party transactions are detailed in note 31.

The Group is ultimately controlled by a single individual, Mi Enhua, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has a number of other business interests outside the Group.

## **(b) Business environment**

### **Georgian business environment**

The Group's operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Georgia. The consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## 2 Basis of preparation

### (a) Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

### (b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value, and land and buildings are stated at revalued amounts.

### (c) Functional and presentation currency

The functional currency of the Bank and its subsidiaries is the Georgian Lari (“GEL”) as, being the national currency of Georgia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The GEL is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in GEL is rounded to the nearest thousand.

### (d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 16, loan impairment estimates.

## 3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by Group entities.

### (a) Basis of consolidation

#### (i) *Subsidiaries*

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

**(ii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

**(b) Non-controlling interests**

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the Bank.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Bank. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statement of comprehensive income.

**(c) Foreign currency**

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income.

**(d) Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBG and other banks. The minimum reserve deposit in foreign currency with the NBG is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

**(e) Financial instruments****(i) Classification**

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

*Available-for-sale financial assets* are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

**(ii) Recognition**

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

**(iii) Measurement**

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

**(iv) Amortised cost**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

**(v) Fair value measurement principles**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

**(vi) Gains and losses on subsequent measurement**

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

**(vii) Derecognition**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

The Group writes off assets deemed to be uncollectible.

**(viii) Repurchase and reverse repurchase agreements**

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

**(ix) Offsetting**

Financial assets and liabilities are offset and the net amount 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 realise the asset and settle the liability simultaneously.

**(f) Property and equipment**

**(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for land and buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

**(ii) Revaluation**

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

**(iii) Depreciation**

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- buildings	50 years
- computers and communication equipment	5 years
- fixtures and fittings	5 years
- motor vehicles	5 years
- leasehold improvements	1-5 years
- other	10 years

Leasehold improvements are depreciated over the shorter of the useful life of the asset and the lease term.

**(g) Intangible assets**

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets is 10 years.

**(h) Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of investment property. Cost includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to working condition for its intended use.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

**(i) Assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

**(j) Repossessed assets**

The Group recognises repossessed assets in the statement of financial position when it has the full and final settlement rights to the collateral, and when it is entitled to retain any excess proceeds from the realisation of the collateral.

Repossessed assets are measured at the lower of the carrying amount and the fair value less costs to sell. At initial recognition repossessed assets are measured based on the value of the defaulted loan, including expenditure incurred in the process of collateral foreclosure. Fair value less costs to sell is the estimated selling price of the collateral in the ordinary course of business, less the related selling costs. Subsequent to initial recognition, repossessed assets are reviewed for held for sale classification criteria and are reclassified accordingly when the criteria are met.

Repossessed assets are included in other assets.

Gains and losses on disposal of repossessed assets are recognised net in “other operating income” in profit or loss.

**(k) Impairment****(i) *Financial assets carried at amortized cost***

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables 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 objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.



In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

**(ii) *Financial assets carried at cost***

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

**(iii) *Available-for-sale financial assets***

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

**(iv) Non financial assets**

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

**(l) Provisions**

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

**(m) Credit related commitments**

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss
- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument.
- commitments to provide a loan at a below-market interest rate.

**(n) Share capital**

**(i) Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**(ii) Share premium**

Share premium is calculated as the difference between the par value and the amount paid for shares issued.

**(iii) Dividends**

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Georgian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

**(o) Taxation**

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(p) Income and expense recognition**

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

**(q) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively. The Group has not yet analysed the likely impact of the new standard on its financial position or performance.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early. The Group has not yet analysed the likely impact of the new standard on its financial position or performance.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the new standard on its financial position or performance.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet analysed the likely impact of the new standard on its financial position or performance.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The Group has not yet analysed the likely impact of the new standard on its financial position or performance.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

## 4 Net interest income

	<b>2012</b> <b>GEL'000</b>	<b>2011</b> <b>GEL'000</b>
<b>Interest income</b>		
Loans to customers	12,814	12,859
Available-for-sale financial assets	1,660	1,216
Placements with banks	383	87
Placements with NBG	175	135
Held-to-maturity investments	-	182
	<b>15,032</b>	<b>14,479</b>
<b>Interest expense</b>		
Current accounts and deposits from customers	(6,072)	(5,212)
Other borrowed funds	(927)	(863)
Amounts payable under repurchase agreements	(227)	(628)
Deposits and balances from banks	(208)	(107)
Subordinated borrowings	(185)	(114)
	<b>(7,619)</b>	<b>(6,924)</b>
	<b>7,413</b>	<b>7,555</b>

Included within various line items under interest income for the year ended 31 December 2012 is a total of GEL 120 thousand (2011: GEL 127 thousand) accrued on impaired financial assets.

## 5 Fee and commission income

	<b>2012</b> <b>GEL'000</b>	<b>2011</b> <b>GEL'000</b>
Credit facilities	1,207	1,245
Plastic card fees	814	959
Settlement fees	640	658
Account maintenance and cash transaction fees	381	498
Other	292	245
	<b>3,334</b>	<b>3,605</b>

## 6 Fee and commission expense

	<b>2012</b> <b>GEL'000</b>	<b>2011</b> <b>GEL'000</b>
Plastic card system fees	989	958
Settlement fees	184	157
Expenses related to guarantees	94	66
Other	451	366
	<b>1,718</b>	<b>1,547</b>

## 7 Net foreign exchange income

	<b>2012</b>	<b>2011</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Gain on spot transactions	1,791	1,887
Net loss from revaluation of financial assets and liabilities	(33)	(81)
	<b>1,758</b>	<b>1,806</b>

## 8 Other operating income

	<b>2012</b>	<b>2011</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Fines and penalties received	1,407	1,145
Fines and penalties paid	(2)	(32)
Gain on disposal of repossessed assets and investment property	-	457
Gain on disposal of assets held for sale	2	366
Other	187	115
	<b>1,594</b>	<b>2,051</b>

## 9 Impairment losses

	<b>2012</b>	<b>2011</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Loans to customers	890	1,169
Assets held for sale	(658)	-
Other assets	(161)	(150)
	<b>71</b>	<b>1,019</b>

## 10 Personnel expenses

	<b>2012</b>	<b>2011</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Employee compensation	4,438	3,981
Payroll related taxes	1,109	995
	<b>5,547</b>	<b>4,976</b>

## 11 Other general administrative expenses

	2012 GEL'000	2011 GEL'000
Depreciation and amortization	844	1,250
Professional services	574	564
Security	422	458
Occupancy	323	356
Advertising and marketing	190	289
Taxes other than income tax	168	206
Communications and information services	165	172
Office supplies	104	126
Insurance	63	40
Travel and training	42	30
Repairs and maintenance	37	55
Other	463	410
	<b>3,395</b>	<b>3,956</b>

## 12 Income tax (benefit) expense

	2012 GEL'000	2011 GEL'000
Current year tax expense	-	-
Deferred taxation movement due to origination and reversal of temporary differences	(27)	414
<b>Total income tax expense</b>	<b>(27)</b>	<b>414</b>

In 2012, the applicable tax rate for current and deferred tax is 15% (2011: 15%).

### Reconciliation of effective tax rate for the year ended 31 December

	2012 GEL'000	%	2011 GEL'000	%
Profit before tax	3,368		3,519	
Income tax at the applicable tax rate	505	15%	528	15%
Non-taxable income	(532)	(16%)	(114)	(3%)
	<b>(27)</b>	<b>(1%)</b>	<b>414</b>	<b>12%</b>



**(a) Deferred tax asset and liability**

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2012 and 2011.

Movements in temporary differences during the years ended 31 December 2012 and 2011 are presented as follows:

<b>GEL'000</b>	<b>Balance 1 January 2012</b>	<b>Recognised in profit or loss</b>	<b>Recognised directly in equity</b>	<b>Balance 31 December 2012</b>
Available-for-sale financial assets	(40)	-	(47)	(87)
Property and equipment	(1,956)	214	-	(1,742)
Other assets	617	42	-	659
Other liabilities	58	12	-	70
Tax loss carry-forward	316	(241)	-	75
	<b>(1,005)</b>	<b>27</b>	<b>(47)</b>	<b>(1,025)</b>

  

<b>GEL'000</b>	<b>Balance 1 January 2011</b>	<b>Recognised in profit or loss</b>	<b>Recognised in other comprehensive income</b>	<b>Balance 31 December 2011</b>
Available-for-sale financial assets	-	-	(40)	(40)
Property and equipment	(1,410)	(546)	-	(1,956)
Other assets	734	(117)	-	617
Other liabilities	59	(1)	-	58
Tax loss carry-forward	66	250	-	316
	<b>(551)</b>	<b>(414)</b>	<b>(40)</b>	<b>(1,005)</b>

The deductible temporary differences do not expire under current tax legislation. Tax loss carry forwards amount to GEL 75 thousand as at 31 December 2012 (2011: GEL 316 thousand). Of these losses, GEL 75 thousand expires in 2013.

**(b) Income tax recognised in other comprehensive income**

The tax effects relating to components of other comprehensive income for the years ended 31 December 2012 and 2011 comprise the following:

<b>GEL'000</b>	<b>2012</b>			<b>2011</b>		
	<b>Amount before tax</b>	<b>Tax expense</b>	<b>Amount net-of-tax</b>	<b>Amount before tax</b>	<b>Tax expense</b>	<b>Amount net-of-tax</b>
Net change in fair value of available-for-sale financial assets transferred to profit or loss	312	(47)	265	267	(40)	227
<b>Other comprehensive income</b>	<b>312</b>	<b>(47)</b>	<b>265</b>	<b>267</b>	<b>(40)</b>	<b>227</b>

### 13 Due from the National Bank of Georgia

	2012	2011
	GEL'000	GEL'000
Mandatory minimum reserve deposit	12,942	9,568
Overnight deposit	4,000	1,400
Nostro accounts	1,359	2,160
	<b>18,301</b>	<b>13,128</b>

The minimum reserve deposit is a mandatory interest bearing deposit in foreign currency calculated in accordance with the regulations issued by the NBG and whose withdrawability is restricted. The nostro accounts represent balances with the NBG related to settlement activity and were available for withdrawal at year end. The overnight deposit is a one-day deposit with the NBG, whose withdrawability is not restricted.

### 14 Placements with banks

	2012	2011
	GEL'000	GEL'000
<b>Nostro accounts</b>		
- rated AA- to AA+	-	463
- rated A- to A+	4,514	5,860
- rated BBB- to BBB	12	30
- rated BB- to BB+	314	8
- rated below B+	247	74
- not rated	173	112
<b>Total nostro accounts</b>	<b>5,260</b>	<b>6,547</b>
<b>Deposits and other advances to banks</b>		
- rated AA- to AA+	-	-
- rated BBB-	-	117
- rated BB-	9,000	-
- not rated	265	3,241
<b>Total deposits and other advances to banks</b>	<b>9,265</b>	<b>3,358</b>
	<b>14,525</b>	<b>9,905</b>

None of placements with banks are impaired or past due. The above ratings are per Fitch rating agency ratings.

As at 31 December 2012 the Group has no bank (2011: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2011 was GEL 8,453 thousand.

## 15 Available-for-sale financial assets

	2012 GEL'000	2011 GEL'000
<b>Held by the Group</b>		
<b>Debt and other fixed-income instruments</b>		
NBG deposit certificates	15,445	2,962
Georgian Government treasury bonds	10,379	4,739
Georgian Government treasury bills	2,985	6,612
	<b>28,809</b>	<b>14,313</b>
<b>Equity instruments – Unquoted</b>		
Corporate shares	63	63
	<b>28,872</b>	<b>14,376</b>
<b>Pledged under sale and repurchase agreements</b>		
<b>Debt and other fixed-income instruments</b>		
Georgian Government treasury bills	-	3,705
NBG deposit certificates	-	1,990
	<b>-</b>	<b>5,695</b>

No available-for-sale financial assets are past due or impaired.

## 16 Loans to customers

	2012 GEL'000	2011 GEL'000
<b>Loans to legal entities</b>	<b>48,535</b>	<b>33,414</b>
<b>Loans to individuals</b>		
Loans collateralized by real estate	37,315	27,022
Credit cards	5,154	6,429
Auto loans	668	1,065
Other consumer loans	7,053	7,814
<b>Total loans to individuals</b>	<b>50,190</b>	<b>42,330</b>
<b>Gross loans to customers</b>	<b>98,725</b>	<b>75,744</b>
Impairment allowance	(4,200)	(3,480)
<b>Net loans to customers</b>	<b>94,525</b>	<b>72,264</b>

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Loans to legal entities GEL'000	Loans to individuals GEL'000	Total GEL'000
Balance at the beginning of the year	1,630	1,850	3,480
Net charge	564	326	890
Write-offs	(25)	(145)	(170)
<b>Balance at the end of the year</b>	<b>2,169</b>	<b>2,031</b>	<b>4,200</b>

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2011 are as follows:

	Loans to legal entities GEL'000	Loans to individuals GEL'000	Total GEL'000
Balance at the beginning of the year	1,005	1,217	2,222
Net charge	754	415	1,169
(Write-offs)/recoveries	(129)	218	89
<b>Balance at the end of the year</b>	<b>1,630</b>	<b>1,850</b>	<b>3,480</b>

**(a) Credit quality of loans to customers**

The following table provides information on the credit quality of loans to customers as at 31 December 2012:

	Gross loans GEL'000	Impairment allowance GEL'000	Net loans GEL'000	Impairment allowance to gross loans, %
<b>Loans to legal entities</b>				
Loans without individual signs of impairment				
- not overdue	40,958	815	40,143	2.0%
- watch list loans	1,086	21	1,065	1.9%
Impaired loans:				
- not overdue	4,144	573	3,571	13.8%
- overdue less than 90 days	1,461	343	1,118	23.5%
- overdue more than 90 days and less than 1 year	886	417	469	47.1%
Total impaired loans	6,491	1,333	5,158	20.5%
<b>Total loans to legal entities</b>	<b>48,535</b>	<b>2,169</b>	<b>46,366</b>	<b>4.5%</b>

	<b>Gross loans GEL'000</b>	<b>Impairment allowance GEL'000</b>	<b>Net loans GEL'000</b>	<b>Impairment allowance to gross loans, %</b>
<b>Loans to individuals</b>				
<b>Loans collateralized by real estate</b>				
- not overdue	34,389	989	33,400	2.9%
- overdue less than 30 days	1,463	74	1,389	5.1%
- overdue 30-89 days	944	181	763	19.2%
- overdue 90-179 days	318	103	215	32.4%
- overdue 180-360 days	128	61	67	47.7%
- overdue more than 360 days	73	73	-	100.0%
<b>Total loans collateralized by real estate</b>	<b>37,315</b>	<b>1,481</b>	<b>35,834</b>	<b>4.0%</b>
<b>Credit cards</b>				
- not overdue	5,065	153	4,912	3.0%
- overdue less than 30 days	60	32	28	53.3%
- overdue 30-89 days	17	16	1	94.1%
- overdue 90-179 days	3	2	1	66.7%
- overdue 180-360 days	9	7	2	77.8%
<b>Total credit cards</b>	<b>5,154</b>	<b>210</b>	<b>4,944</b>	<b>4.1%</b>
<b>Auto loans</b>				
- not overdue	648	13	635	2.0%
- overdue less than 30 days	18	1	17	5.6%
- overdue 90-179 days	1	1	-	100.0%
- overdue 180-360 days	1	1	-	100.0%
<b>Total auto loans</b>	<b>668</b>	<b>16</b>	<b>652</b>	<b>2.4%</b>
<b>Other consumer loans</b>				
- not overdue	6,327	287	6,040	4.5%
- overdue less than 30 days	647	21	626	3.2%
- overdue 30-89 days	36	8	28	22.2%
- overdue 90-179 days	40	7	33	17.5%
- overdue more than 360 days	3	1	2	33.3%
<b>Total other consumer loans</b>	<b>7,053</b>	<b>324</b>	<b>6,729</b>	<b>4.6%</b>
<b>Total loans to individuals</b>	<b>50,190</b>	<b>2,031</b>	<b>48,159</b>	<b>4.0%</b>
<b>Total loans to customers</b>	<b>98,725</b>	<b>4,200</b>	<b>94,525</b>	<b>4.3%</b>

The following table provides information on the credit quality of the loans to customers as at 31 December 2011:

	Gross loans GEL'000	Impairment allowance GEL'000	Net loans GEL'000	Impairment allowance to gross loans, %
<b>Loans to legal entities</b>				
Loans without individual signs of impairment				
- not overdue	27,507	669	26,838	2.4%
- watch list loans	777	15	762	1.9%
Impaired loans:				
- not overdue	2,416	286	2,130	11.8%
- overdue less than 90 days	2,026	424	1,602	20.9%
- overdue more than 90 days and less than 1 year	656	212	444	32.3%
- overdue more than 1 year	32	24	8	75.0%
Total impaired loans	5,130	946	4,184	18.4%
<b>Total loans to legal entities</b>	<b>33,414</b>	<b>1,630</b>	<b>31,784</b>	<b>4.9%</b>
<b>Loans to individuals</b>				
<b>Loans collateralized by real estate</b>				
- not overdue	24,977	900	24,077	3.6%
- overdue less than 30 days	1,310	67	1,243	5.1%
- overdue 30-89 days	314	76	238	24.2%
- overdue 90-179 days	265	67	198	25.3%
- overdue 180-360 days	128	38	90	29.7%
- overdue more than 360 days	28	8	20	28.6%
<b>Total loans collateralized by real estate</b>	<b>27,022</b>	<b>1,156</b>	<b>25,866</b>	<b>4.3%</b>
<b>Credit cards</b>				
- not overdue	6,258	158	6,100	2.5%
- overdue less than 30 days	65	33	32	50.8%
- overdue 30-89 days	60	49	11	81.7%
- overdue 90-179 days	7	7	-	100.0%
- overdue 180-360 days	27	25	2	92.6%
- overdue more than 360 days	12	11	1	91.7%
<b>Total credit cards</b>	<b>6,429</b>	<b>283</b>	<b>6,146</b>	<b>4.4%</b>
<b>Auto loans</b>				
- not overdue	987	23	964	2.3%
- overdue less than 30 days	23	2	21	8.7%
- overdue 30-89 days	28	8	20	28.6%
- overdue 90-179 days	19	6	13	31.6%
- overdue 180-360 days	8	8	-	100.0%
<b>Total auto loans</b>	<b>1,065</b>	<b>47</b>	<b>1,018</b>	<b>4.4%</b>

	Gross loans GEL'000	Impairment allowance GEL'000	Net loans GEL'000	Impairment allowance to gross loans, %
<b>Other consumer loans</b>				
- not overdue	7,413	340	7,073	4.6%
- overdue less than 30 days	352	10	342	2.8%
- overdue 30-89 days	42	11	31	26.2%
- overdue 90-179 days	7	3	4	42.9%
<b>Total other consumer loans</b>	<b>7,814</b>	<b>364</b>	<b>7,450</b>	<b>4.7%</b>
<b>Total loans to individuals</b>	<b>42,330</b>	<b>1,850</b>	<b>40,480</b>	<b>4.4%</b>
<b>Total loans to customers</b>	<b>75,744</b>	<b>3,480</b>	<b>72,264</b>	<b>4.6%</b>

## (b) Key assumptions and judgments for estimating the loan impairment

### (i) Loans to legal entities

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- for non-impaired loans the Group creates a collective provision of 2.0% (2011: 2.4%) based on the expected loss rate of the Group and considering other comparable banks in Georgia
- for impaired loans a discount of 25% to the originally appraised value if the property pledged is sold and a delay of 36 months on average in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to legal entities as at 31 December 2012 would be GEL 464 thousand lower/higher (2011: GEL 318 thousand lower/higher)

**(ii) Loans to individuals**

The Group estimates loan impairment for loans to individuals based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- loss migration rates are constant and can be estimated based on the historic loan default migration pattern for the past 36 months for loans collateralised by real estate, credit cards, auto loans and other consumer loans
- in respect of loans secured by real estate, a delay of 12 months on average in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount of 20% to the originally appraised value if the property pledged is sold through court procedures.

Loan loss rates are as follows:

- Loans collateralized by real estate - 4.0%
- Credit cards - 4.1%
- Auto loans - 2.4%
- Other consumer loans - 4.6%

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by three percent, the impairment allowance on loans to individuals as at 31 December 2012 would be GEL 1,445 thousand lower/higher (2011: GEL 1,214 thousand).



**(c) Analysis of collateral****(i) Loans to legal entities**

The following tables provides information on collateral and other credit enhancements securing loans to legal entities, net of impairment, by types of collateral:

<b>31 December 2012 GEL'000</b>	<b>Loans to legal entities, carrying amount</b>	<b>Fair value of collateral - for collateral assessed as of reporting date</b>	<b>Fair value of collateral - for collateral assessed as of loan inception date</b>	<b>Fair value of collateral not determined</b>
Loans without individual signs of impairment				
Real estate	33,425	31,810	1,615	-
Motor vehicles	2,036	1,943	93	-
Cash and deposits	1,858	1,858	-	-
Thirt party guarantees	1,517	-	-	1,517
Inventory	1,037	899	138	-
Equipment	177	26	151	-
Other collateral (accounts receivable)	812	812	-	-
No collateral or other credit enhancement	346	-	-	346
<b>Total loans without individual signs of impairment</b>	<b>41,208</b>	<b>37,348</b>	<b>1,997</b>	<b>1,863</b>
Overdue or impaired loans				
Real estate	4,638	4,243	395	-
Inventory	16	-	16	-
Thirt party guarantees	504	-	-	504
<b>Total overdue or impaired loans</b>	<b>5,158</b>	<b>4,243</b>	<b>411</b>	<b>504</b>
<b>Total loans to legal entities</b>	<b>46,366</b>	<b>41,591</b>	<b>2,408</b>	<b>2,367</b>

<b>31 December 2011 GEL'000</b>	<b>Loans to legal entities, carrying amount</b>	<b>Fair value of collateral - for collateral assessed as of reporting date</b>	<b>Fair value of collateral - for collateral assessed as of loan inception date</b>	<b>Fair value of collateral not determined</b>
Loans without individual signs of impairment				
Real estate	20,550	20,002	548	-
Cash and deposits	3,437	3,437	-	-
Motor vehicles	1,100	1,020	80	-
Third party guarantees	1,091	-	-	1,091
Equipment	568	418	150	-
Inventory	241	207	34	-
Corporate guarantees (rated BB-to BB+)	106	-	-	106
Corporate guarantees (unrated)	106	-	-	106
Traded securities	63	63	-	-
No collateral or other credit enhancement	338	-	-	338
<b>Total loans without individual signs of impairment</b>	<b>27,600</b>	<b>25,147</b>	<b>812</b>	<b>1,641</b>
Overdue or impaired loans				
Real estate	3,612	3,478	134	-
Third party guarantees	349	-	-	349
Traded securities	170	170	-	-
Inventory	36	22	14	-
No collateral or other credit enhancement	17	-	-	17
<b>Total overdue or impaired loans</b>	<b>4,184</b>	<b>3,670</b>	<b>148</b>	<b>366</b>
<b>Total loans to legal entities</b>	<b>31,784</b>	<b>28,817</b>	<b>960</b>	<b>2,007</b>

The tables above are presented on the basis of excluding overcollateralization.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date. But collaterals for loans with carrying amounts more than GEL 100 thousand are revalued at least once a year.

The Group has loans, for which fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

**(ii) Loans to individuals**

Loans collateralized by real estate are secured by the underlying housing real estate. The Group's policy is to issue loans collateralized by real estate with a loan-to-value ratio of a maximum of 80%. Credit card overdrafts are not secured. Auto loans are secured by the underlying cars, other consumer loans are secured by different types of collateral.

The following tables provides information on real estate collateral securing loans collateralized by real estate, net of impairment:

<b>31 December 2012 GEL'000</b>	<b>Loans to individuals, carrying amount</b>	<b>Fair value of collateral - for collateral assessed as of reporting date</b>	<b>Fair value of collateral - for collateral assessed as of loan inception date</b>	<b>Fair value of collateral not determined</b>
Not overdue loans	33,400	27,080	6,320	-
Overdue loans	2,434	1,545	889	-
<b>Total loans collateralized by real estate</b>	<b>35,834</b>	<b>28,625</b>	<b>7,209</b>	<b>-</b>
<b>31 December 2011 GEL'000</b>	<b>Loans to individuals, carrying amount</b>	<b>Fair value of collateral - for collateral assessed as of reporting date</b>	<b>Fair value of collateral - for collateral assessed as of loan inception date</b>	<b>Fair value of collateral not determined</b>
Not overdue loans	24,077	20,230	3,847	-
Overdue loans	1,789	1,442	347	-
<b>Total loans collateralized by real estate</b>	<b>25,866</b>	<b>21,672</b>	<b>4,194</b>	<b>-</b>

The table above is presented on the basis of excluding overcollateralization.

For certain loans secured by real estate the Group updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. For the loans with carrying amount more than GEL 100 thousand the valuations are updated at least once a year. The Group may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For remaining loans secured by real the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

For impaired or overdue loans collateralized by real estate management believes that the fair value of collateral is at least 95% of the carryinig amount of the loans at the reporting date.

Auto loans are secured by the underlying cars. The Group's policy is to issue auto loans with a loan-to-value ratio of a maximum of 70%.

For impaired or overdue auto loans management believes that the amount of loans or its parts, collateral fair value coverage is 100% of the amount of the loans at the reporting date.

**(iii) Repossessed collateral**

During the year ended 31 December 2012, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of GEL 127 thousand (2011: GEL 644 thousand).

The Group's policy is to sell these assets as soon as it is practicable.

**(d) Industry and geographical analysis of the loan portfolio**

Loans to customers were issued primarily to customers located within the Georgia who operate in the following economic sectors:

	<b>2012</b> <b>GEL'000</b>	<b>2011</b> <b>GEL'000</b>
Trade and services	30,167	22,935
Construction	3,849	1,545
Education	3,829	2,509
Mining/metallurgy and production	3,049	2,884
Energy	348	109
Agriculture	118	316
Transportation and communication	88	168
Other	4,918	1,318
Loans to individuals		
- Trade and services	13,088	10,944
- Other	35,071	29,536
	<b>94,525</b>	<b>72,264</b>

**(e) Significant credit exposures**

As at 31 December 2012 and 2011 the Group did not have borrowers or groups of connected borrowers whose loan balances exceed 10% of equity.

**(f) Loan maturities**

The maturity of the loan portfolio is presented in note 26(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

**(g) Assets under lien**

As at 31 December 2012 loans to customers with a gross value of GEL 18,740 thousand (2011: GEL 20,908 thousand) serve as collateral for other borrowed funds and subordinated borrowings (note 23).

## 17 Assets held for sale

In 2012 management committed to sell land and buildings of GEL 5,973 thousand (2011: GEL 1,953 thousand). Efforts to sell the assets have commenced, and a sale is highly probable in 2013.

As at 31 December 2012 and 31 December 2011 the carrying amount of assets held for sale approximately equals its fair value less costs to sell.

	2012	2011
	GEL'000	GEL'000
<b>Assets classified as held for sale</b>		
Land and buildings	<u>5,973</u>	<u>1,953</u>

Management believes that the assets will be sold by the end of 2013. The Group disposed some of these assets after the reporting date, as disclosed in note 34.

The table below presents the movement in the assets held for sale for the year ended 31 December 2012:

	2012	2011
	GEL'000	GEL'000
<b>Assets held for sale as at the beginning of the year</b>	<u>1,953</u>	<u>2,338</u>
Additions	84	-
Transferred from repossessed assets (note 19)	2,989	-
Transferred from investment property	293	-
Disposals	(4)	(385)
Impairment recovery (note 9)	658	-
<b>Assets held for sale as at the end of the year</b>	<u><u>5,973</u></u>	<u><u>1,953</u></u>

The table below presents the movement in the impairment allowance on assets held for sale for the year ended 31 December 2012 and 2011:

	2012	2011
	GEL'000	GEL'000
Balance at the beginning of the year	1,207	1,207
Transferred from repossessed assets (note 19)	470	-
Impairment recovery (note 9)	(658)	-
<b>Balance at the end of the year</b>	<u><u>1,019</u></u>	<u><u>1,207</u></u>

## 18 Property and equipment

GEL'000	Land and buildings	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Other	Total
<b>Cost/revalued amount</b>							
Balance at 1 January 2012	14,343	4,103	1,026	131	6	151	19,760
Additions	19	110	51	25	89	21	315
Disposals	-	(16)	(5)	(60)	-	-	(81)
<b>Balance at 31 December 2012</b>	<b>14,362</b>	<b>4,197</b>	<b>1,072</b>	<b>96</b>	<b>95</b>	<b>172</b>	<b>19,994</b>
<b>Depreciation and impairment losses</b>							
Balance at 1 January 2012	221	3,261	713	124	2	69	4,390
Depreciation for the year	279	393	99	3	6	16	796
Disposals	-	(16)	(5)	(53)	-	-	(74)
<b>Balance at 31 December 2012</b>	<b>500</b>	<b>3,638</b>	<b>807</b>	<b>74</b>	<b>8</b>	<b>85</b>	<b>5,112</b>
<b>Carrying amount</b>							
<b>At 31 December 2012</b>	<b>13,862</b>	<b>559</b>	<b>265</b>	<b>22</b>	<b>87</b>	<b>87</b>	<b>14,882</b>

<b>GEL'000</b>	<b>Land and buildings</b>	<b>Equipment</b>	<b>Fixtures and fittings</b>	<b>Motor vehicles</b>	<b>Leasehold improvements</b>	<b>Other</b>	<b>Total</b>
<b>Cost/revalued amount</b>							
Balance at 1 January 2011	13,883	3,936	901	131	125	127	19,103
Additions	469	180	142	-	6	24	821
Disposals	(9)	(13)	(17)	-	(125)	-	(164)
<b>At 31 December 2011</b>	<b>14,343</b>	<b>4,103</b>	<b>1,026</b>	<b>131</b>	<b>6</b>	<b>151</b>	<b>19,760</b>
<b>Depreciation and impairment losses</b>							
Balance at 1 January 2011	-	2,656	477	106	46	54	3,339
Depreciation for the year	221	618	253	18	75	15	1,200
Disposals	-	(13)	(17)	-	(119)	-	(149)
<b>Balance at 31 December 2011</b>	<b>221</b>	<b>3,261</b>	<b>713</b>	<b>124</b>	<b>2</b>	<b>69</b>	<b>4,390</b>
<b>Carrying amounts</b>							
<b>At 31 December 2011</b>	<b>14,122</b>	<b>842</b>	<b>313</b>	<b>7</b>	<b>4</b>	<b>82</b>	<b>15,370</b>

There are no capitalised borrowing costs related to the acquisition or construction of buildings or equipment during 2012 (2011: nil).

**(a) Revalued assets**

In 2010 the land and buildings were re-valued by management based on the results of an independent appraisal performed by Georgian Valuation Company Ltd. The basis used for the appraisal was the market approach. The market approach was based upon an analysis of results of comparable sales and recent market transactions of similar land and buildings.

As at 31 December 2012 the management concluded that the fair value of land and buildings did not change significantly since 2010 based on the analysis of market trends and recent market transactions for comparable land and buildings and that no adjustments are needed to the carrying values of land and buildings in order for them to approximate their fair values.

The carrying amount of land and buildings as at 31 December 2012, if they would not have been revalued, would be GEL 11,382 thousand (2011: GEL 11,614 thousand).

**19 Other assets**

	2012	2011
	GEL'000	GEL'000
Receivables from payments processing systems	163	943
Accounts receivable	289	372
Other financial receivables	570	475
Impairment allowance	(168)	(302)
<b>Total other financial assets</b>	<b>854</b>	<b>1,488</b>
Repossessed assets	10,638	13,806
Prepayments	1,632	1,275
Taxes other than income tax, recoverable	913	953
Impairment allowance on repossessed assets	(3,637)	(4,134)
<b>Total other non-financial assets</b>	<b>9,546</b>	<b>11,900</b>
<b>Total other assets</b>	<b>10,400</b>	<b>13,388</b>

**(a) Analysis of movements in repossessed assets**

Movements in the repossessed assets for the year ended 31 December 2012 and 2011 are as follows:

	2012	2011
	GEL'000	GEL'000
<b>Repossessed assets at the beginning of the year</b>	<b>13,806</b>	<b>13,205</b>
Additions	535	646
Disposals	(244)	(45)
Transfer to assets held for sale	(3,459)	-
<b>Repossessed assets at the end of the year</b>	<b>10,638</b>	<b>13,806</b>



**(b) Analysis of movements in the impairment allowance**

Movements in the impairment allowance for the year ended 31 December 2012 and 2011 are as follows:

	<b>2012</b> <b>GEL'000</b>	<b>2011</b> <b>GEL'000</b>
Balance at the beginning of the year	4,436	4,586
Net recovery (note 9)	(161)	(150)
Transfer to assets held for sale	(470)	-
<b>Balance at the end of the year</b>	<b>3,805</b>	<b>4,436</b>

The nature and net carrying value of repossessed assets as at 31 December are as follows:

	<b>Carrying value</b> <b>31 December 2012</b> <b>GEL'000</b>	<b>Carrying value</b> <b>31 December 2011</b> <b>GEL'000</b>
Land and buildings	<b>7,001</b>	<b>9,672</b>

Repossessed assets with carrying value of GEL 162 thousand (2011: GEL 21 thousand) were disposed during the year.

Management believes that the carrying amount of repossessed assets approximately equals to their fair value less costs to sell as at 31 December 2012 and 31 December 2011.

As at 31 December 2012 none of repossessed assets (2011: GEL 269 thousand) are restricted for different time periods by the end of which the borrowers can re-purchase back the assets from the Group.

**20 Deposits and balances from banks**

	<b>2012</b> <b>GEL'000</b>	<b>2011</b> <b>GEL'000</b>
Vostro accounts	17	1,352
Term deposits	5,301	4,001
	<b>5,318</b>	<b>5,353</b>

As at 31 December 2012 the Group has no banks (2011: one bank), whose balances exceed 10% of equity.

## 21 Amounts payable under repurchase agreements

	2012	2011
	GEL'000	GEL'000
Amounts due to NBG	-	5,502

### (a) Collateral

As of 31 December 2011, amounts payable under repurchase agreements were collateralised by the following securities:

	2012	2011
	GEL'000	GEL'000
Georgian Government treasury bills	-	3,705
NBG deposit certificates	-	1,990
	-	5,695

## 22 Current accounts and deposits from customers

	2012	2011
	GEL'000	GEL'000
Current accounts	41,193	38,176
Demand deposits	30,170	25,432
Term deposits	44,700	34,603
	116,063	98,211

As at 31 December 2012, the Group maintained customer deposit balances of GEL 9,272 thousand (2011: GEL 11,974 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Group.

As at 31 December 2012, the Group has one customer (2011: one customer), whose balances exceed 10% of equity. These balances as at 31 December 2012 are GEL 10,315 thousand (2011: GEL 11,562 thousand).

## 23 Other borrowed funds and subordinated borrowings

	2012	2011
	GEL'000	GEL'000
Loans from World Business Capital	14,870	16,461
Loans from Black Sea Trade and Development Bank	6,808	-
Loans from European Bank for Reconstruction and Development (EBRD)	1,461	4,413
Loan from Ministry of Finance	764	962
Other	84	96
	23,987	21,932

As at 31 December 2012 loans from World Business Capital are secured by loans to customers with the gross value of GEL 18,740 thousand (2011: GEL 20,908 thousand) (see note 16).

**(a) Subordinated borrowings**

As at 31 December 2012 subordinated borrowings comprise loans received from World Business Capital of GEL 3,319 thousand (2011: GEL 3,462 thousand), maturing in 2021 and carrying an annual interest rate of LIBOR+5%. In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Group.

**(b) Breach of covenants**

As at 31 December 2012 the Group was in breach of one covenant requirement under credit agreements with EBRD. Management negotiated a waiver during 2012 for the covenant so that the respective borrowings are not payable on demand as at 31 December 2012.

**24 Other liabilities**

	<b>2012</b>	<b>2011</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Accrued expenses	397	326
Payables for payments processing system	27	439
Other financial liabilities	160	850
<b>Total other financial liabilities</b>	<b>584</b>	<b>1,615</b>
Taxes payable other than income tax	591	96
<b>Total other liabilities</b>	<b>1,175</b>	<b>1,711</b>

**25 Share capital and share premium****(a) Issued capital and share premium**

The authorised, issued and paid in share capital comprises 9,078,780 ordinary shares (2011: 5,911,765). All shares have a nominal value of GEL 1 per share.

During 2012, the Group issued 3,167,015 new shares with a par value of GEL 1 per share for GEL 24,850,502, which created share premium of GEL 21,683,487.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Group.

**(b) Dividends**

Dividends payable are restricted to the maximum retained earnings of the Bank less general reserves as recorded in the Bank's statutory accounts, which are determined according to legislation of Georgia.

At the reporting date and subsequent to 31 December 2012 no dividends have been declared by the Group.

## 26 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

### (a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervisory Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Treasury Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the Management Board, chaired by the General Director. Market risk limits are approved by Management Board based on recommendations of the Risk Management Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions which are monitored on a regular basis and reviewed and approved by the Management Board.

**(i) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

**Interest rate gap analysis**

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

GEL'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Carrying amount
<b>31 December 2012</b>						
<b>ASSETS</b>						
Cash	12,985	-	-	-	-	12,985
Due from the National Bank of Georgia	18,301	-	-	-	-	18,301
Placements with banks	14,260	-	265	-	-	14,525
Available-for-sale financial assets	28,809	-	-	-	63	28,872
Loans to customers	3,974	7,554	31,274	37,978	13,745	94,525
	<b>78,329</b>	<b>7,554</b>	<b>31,539</b>	<b>37,978</b>	<b>13,808</b>	<b>169,208</b>
<b>LIABILITIES</b>						
Deposits and balances from banks	5,318	-	-	-	-	5,318
Current accounts and deposits from customers	75,419	5,493	30,715	4,109	327	116,063
Subordinated borrowings	-	-	-	-	3,319	3,319
Other borrowed funds	-	2,061	8,006	6,728	3,873	20,668
	<b>80,737</b>	<b>7,554</b>	<b>38,721</b>	<b>10,837</b>	<b>7,519</b>	<b>145,368</b>
	<b>(2,408)</b>	<b>-</b>	<b>(7,182)</b>	<b>27,141</b>	<b>6,289</b>	<b>23,840</b>
<b>31 December 2011</b>						
<b>ASSETS</b>						
Cash	11,747	-	-	-	-	11,747
Due from the National Bank of Georgia	13,128	-	-	-	-	13,128
Placements with banks	9,665	-	240	-	-	9,905
Available-for-sale financial assets	20,008	-	-	-	63	20,071
Loans to customers	4,124	6,912	21,977	32,999	6,252	72,264
	<b>58,672</b>	<b>6,912</b>	<b>22,217</b>	<b>32,999</b>	<b>6,315</b>	<b>127,115</b>
<b>LIABILITIES</b>						
Deposits and balances from banks	5,353	-	-	-	-	5,353
Amounts payable under repurchase agreements	5,502	-	-	-	-	5,502
Current accounts and deposits from customers	65,520	6,544	22,214	3,557	376	98,211
Subordinated borrowings	-	121	-	-	3,341	3,462
Other borrowed funds	-	1,830	2,835	8,701	5,104	18,470
	<b>76,375</b>	<b>8,495</b>	<b>25,049</b>	<b>12,258</b>	<b>8,821</b>	<b>130,998</b>
	<b>(17,703)</b>	<b>(1,583)</b>	<b>(2,832)</b>	<b>20,741</b>	<b>(2,506)</b>	<b>(3,883)</b>

**Average interest rates**

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2012 and 2011. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2012			2011		
	Average effective interest rate, %			Average effective interest rate, %		
	GEL	USD	Other currencies	GEL	USD	Other currencies
<b>Interest bearing assets</b>						
Due from the National Bank of Georgia	3.1%	-	0.4%	3.9%	-	0.5%
Placement with banks						
- Nostro accounts with banks	-	0.2%	-	2.7%	-	-
- Deposits and other advances to banks	1.3%	-	-	7.1%	4.1%	3%
Available-for-sale financial assets	8.1%	-	-	9.3%	-	-
Loans to customers	16.8%	14.9%	15.8%	17.4%	16.7%	16.7%
Held-to-maturity investments	-	-	-	9.1%	-	-
<b>Interest bearing liabilities</b>						
Deposits and balances from banks	-	2.8%	-	7.1%	5.7%	4.2%
Amounts payable under repurchase agreements	-	-	-	6.8%	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	4.0%	3.0%	1.1%	4.2%	3.2%	1.3%
- Term deposits	8.0%	9.3%	8.2%	10%	9.8%	9%
Subordinated borrowings	-	5.6%	-	-	5.4%	-
Other borrowed funds	5.8%	5.1%	-	7.6%	4.9%	-

**Interest rate sensitivity analysis**

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2012 and 2011 is as follows:

	2012		2011	
	Profit or loss GEL'000	Equity GEL'000	Profit or loss GEL'000	Equity GEL'000
100 bp parallel fall	263	263	354	354
100 bp parallel rise	(263)	(263)	(354)	(354)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

	2012		2011	
	Profit or loss GEL'000	Equity GEL'000	Profit or loss GEL'000	Equity GEL'000
100 bp parallel fall	-	282	-	146
100 bp parallel rise	-	(282)	-	(146)

(ii) *Currency risk*

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the currency structure of financial assets and liabilities as at 31 December 2012:

	GEL GEL'000	USD GEL'000	EUR GEL'000	Other currencies GEL'000	Total GEL'000
<b>ASSETS</b>					
Cash	6,267	3,444	3,167	107	12,985
Due from the National Bank of Georgia	5,113	11,130	2,058	-	18,301
Placements with banks	9,294	1,021	4,136	74	14,525
Available-for-sale financial assets	28,872	-	-	-	28,872
Loans to customers	21,625	69,556	3,343	1	94,525
Other financial assets	680	140	34	-	854
<b>Total assets</b>	<b>71,851</b>	<b>85,291</b>	<b>12,738</b>	<b>182</b>	<b>170,062</b>
<b>LIABILITIES</b>					
Deposits and balances from banks	8	5,309	1	-	5,318
Current accounts and deposits from customers	43,694	59,257	12,976	136	116,063
Subordinated borrowings	-	3,319	-	-	3,319
Other borrowed funds	84	20,584	-	-	20,668
Other financial liabilities	484	98	2	-	584
<b>Total liabilities</b>	<b>44,270</b>	<b>88,567</b>	<b>12,979</b>	<b>136</b>	<b>145,952</b>
<b>Net position</b>	<b>27,581</b>	<b>(3,276)</b>	<b>(241)</b>	<b>46</b>	<b>24,110</b>

The following table shows the currency structure of financial assets and liabilities as at 31 December 2011:

	<b>GEL</b>	<b>USD</b>	<b>EUR</b>	<b>Other currencies</b>	<b>Total</b>
	<b>GEL'000</b>	<b>GEL'000</b>	<b>GEL'000</b>	<b>GEL'000</b>	<b>GEL'000</b>
<b>ASSETS</b>					
Cash	4,990	3,810	2,831	116	11,747
Due from the National Bank of Georgia	3,456	8,054	1,617	1	13,128
Placements with banks	3,253	1,975	4,519	158	9,905
Available-for-sale financial assets	20,071	-	-	-	20,071
Loans to customers	17,585	50,941	3,736	2	72,264
Other financial assets	551	363	574	-	1,488
<b>Total assets</b>	<b>49,906</b>	<b>65,143</b>	<b>13,277</b>	<b>277</b>	<b>128,603</b>
<b>LIABILITIES</b>					
Deposits and balances from banks	5,346	6	1	-	5,353
Amounts payable under repurchase agreements	5,502	-	-	-	5,502
Current accounts and deposits from customers	38,452	46,361	13,110	288	98,211
Subordinated borrowings	-	3,462	-	-	3,462
Other borrowed funds	96	18,374	-	-	18,470
Other financial liabilities	748	553	314	-	1,615
<b>Total liabilities</b>	<b>50,144</b>	<b>68,756</b>	<b>13,425</b>	<b>288</b>	<b>132,613</b>
<b>Net position</b>	<b>(238)</b>	<b>(3,613)</b>	<b>(148)</b>	<b>(11)</b>	<b>(4,010)</b>

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2012 and 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	<b>2012</b>	<b>2011</b>
	<b>GEL'000</b>	<b>GEL'000</b>
10% appreciation of USD against GEL	(278)	(307)
10% appreciation of EUR against GEL	(20)	(13)

A strengthening of the GEL against the above currencies at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.



**(c) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Credit Department. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The Credit Committee reviews the loan/credit application on the basis of submission by the Credit Department. Individual transactions are also reviewed by the Group's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan credit applications are reviewed by the Retail Loans Department through the use of scoring models and application data verification procedures.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Credit Committee with regard to credit concentration and market risks.

During 2010 the Group negotiated a four year guarantee agreement from the U.S. Agency for International Development ("USAID") to cover 50% of losses in respect of qualifying loans. Qualifying loans include loans to small and medium size corporate customers with the condition that 35% of the qualifying portfolio is represented by agricultural loans. According to the guarantee agreement the aggregate principal amount outstanding of all qualifying loans covered at any one time shall not exceed USD 6 million. As at 31 December 2012 qualifying loans with the carrying amount of GEL 1,174 thousand were advanced to customers (2011: GEL 230 thousand).

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position and unrecognised contractual commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	<b>2012</b>	<b>2011</b>
	<b>GEL'000</b>	<b>GEL'000</b>
<b>ASSETS</b>		
Due from the National Bank of Georgia	18,301	13,128
Placements with banks	14,525	9,905
Available-for-sale financial assets	28,872	20,071
Loans to customers	94,525	72,264
Other financial assets	854	1,488
<b>Total maximum exposure</b>	<b>157,077</b>	<b>116,856</b>

The Group holds collateral against loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of value are based on the value of collateral assessed at inception of the loans as updated to the current values considering the approximate changes in property values. The Group obtains specific individual valuation of collateral at each reporting date in case there are indications of impairment.

Collateral generally is not held against investments in securities, and placements in banks, except when securities are held as part of reverse repurchase activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 16.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 28.

As at 31 December 2012 the Bank has no debtors or groups of connected debtors (2011: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

#### **(d) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Management Board and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment. The maturity analysis for financial liabilities as at 31 December 2012 is as follows:

GEL'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	5,321	-	-	-	-	5,321	5,318
Current accounts and deposits from customers	75,897	5,698	12,452	19,740	5,166	118,953	116,063
Subordinated borrowings	-	-	-	-	4,771	4,771	3,319
Other borrowed funds	14	2,078	3,585	4,898	11,458	22,033	20,668
Other financial liabilities	584	-	-	-	-	584	584
<b>Total</b>	<b>81,816</b>	<b>7,776</b>	<b>16,037</b>	<b>24,638</b>	<b>21,395</b>	<b>151,662</b>	<b>145,952</b>
<b>Credit related commitments</b>	<b>21,599</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,599</b>	<b>21,599</b>

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

GEL'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	5,357	-	-	-	-	5,357	5,353
Amounts payable under repurchase agreements	5,507	-	-	-	-	5,507	5,502
Current accounts and deposits from customers	65,567	6,691	13,073	10,182	4,917	100,430	98,211
Subordinated borrowings	-	-	-	-	5,098	5,098	3,462
Other borrowed funds	-	1,930	607	2,840	16,060	21,437	18,470
Other financial liabilities	1,615	-	-	-	-	1,615	1,615
<b>Total</b>	<b>78,046</b>	<b>8,621</b>	<b>13,680</b>	<b>13,022</b>	<b>26,075</b>	<b>139,444</b>	<b>132,613</b>
<b>Credit related commitments</b>	<b>20,874</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,874</b>	<b>20,874</b>

As at 31 December 2012 the Group was in breach of one covenant requirement under credit agreements with EBRD. Management negotiated a waiver during 2012 for the covenant so that the respective borrowings are not payable on demand as at 31 December 2012.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

In accordance with Georgian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	2012 GEL'000	2011 GEL'000
Demand and less than 1 month	4,017	1,873
From 1 to 3 months	5,512	6,541
From 3 to 12 months	30,701	22,212
From 1 to 5 years	4,124	3,584
More than 5 years	346	393
	<b>44,700</b>	<b>34,603</b>

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

GEL'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
<b>Non-derivative assets</b>								
Cash	12,985	-	-	-	-	-	-	12,985
Due from the National Bank of Georgia	18,301	-	-	-	-	-	-	18,301
Placements with banks	14,260	-	265	-	-	-	-	14,525
Available-for-sale financial assets	28,809	-	-	-	-	63	-	28,872
Loans to customers	3,974	7,554	30,383	37,977	13,746	-	891	94,525
Assets held for sale	-	-	5,973	-	-	-	-	5,973
Investment property	-	-	-	-	-	1,055	-	1,055
Property and equipment	-	-	-	-	-	14,882	-	14,882
Intangible assets	-	-	-	-	-	199	-	199
Other assets	240	-	408	1,607	1,144	7,001	-	10,400
<b>Total assets</b>	<b>78,569</b>	<b>7,554</b>	<b>37,029</b>	<b>39,584</b>	<b>14,890</b>	<b>23,200</b>	<b>891</b>	<b>201,717</b>
<b>Non-derivative liabilities</b>								
Deposits and balances from banks	5,318	-	-	-	-	-	-	5,318
Current accounts and deposits from customers	75,420	5,493	30,715	4,108	327	-	-	116,063
Subordinated borrowings	-	-	-	-	3,319	-	-	3,319
Other borrowed funds	-	2,061	8,006	6,729	3,872	-	-	20,668
Deferred tax liability	-	-	-	-	-	1,025	-	1,025
Other liabilities	941	-	216	-	18	-	-	1,175
<b>Total liabilities</b>	<b>81,679</b>	<b>7,554</b>	<b>38,937</b>	<b>10,837</b>	<b>7,536</b>	<b>1,025</b>	<b>-</b>	<b>147,568</b>
<b>Net position</b>	<b>(3,110)</b>	<b>-</b>	<b>(1,908)</b>	<b>28,747</b>	<b>7,354</b>	<b>22,175</b>	<b>891</b>	<b>54,149</b>

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2011:

GEL'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
<b>Non-derivative assets</b>								
Cash	11,747	-	-	-	-	-	-	11,747
Due from the National Bank of Georgia	13,128	-	-	-	-	-	-	13,128
Placements with banks	9,665	-	240	-	-	-	-	9,905
Available-for-sale financial assets	20,008	-	-	-	-	63	-	20,071
Loans to customers	2,993	6,912	21,977	32,999	6,252	-	1,131	72,264
Assets held for sale	-	-	1,953	-	-	-	-	1,953
Investment property	-	-	-	-	-	1,295	-	1,295
Property and equipment	-	-	-	-	-	15,370	-	15,370
Intangible assets	-	-	-	-	-	231	-	231
Other assets	2,250	16	135	65	1,256	9,666	-	13,388
<b>Total assets</b>	<b>59,791</b>	<b>6,928</b>	<b>24,305</b>	<b>33,064</b>	<b>7,508</b>	<b>26,625</b>	<b>1,131</b>	<b>159,352</b>
<b>Non-derivative liabilities</b>								
Deposits and balances from banks	5,353	-	-	-	-	-	-	5,353
Amounts payable under repurchase agreements	5,502	-	-	-	-	-	-	5,502
Current accounts and deposits from customers	65,520	6,544	22,214	3,557	376	-	-	98,211
Subordinated borrowings	-	121	-	-	3,341	-	-	3,462
Other borrowed funds	-	1,830	2,835	8,701	5,104	-	-	18,470
Deferred tax liability	-	-	-	-	-	1,005	-	1,005
Other liabilities	1,711	-	-	-	-	-	-	1,711
<b>Total liabilities</b>	<b>78,086</b>	<b>8,495</b>	<b>25,049</b>	<b>12,258</b>	<b>8,821</b>	<b>1,005</b>	<b>-</b>	<b>133,714</b>
<b>Net position</b>	<b>(18,295)</b>	<b>(1,567)</b>	<b>(744)</b>	<b>20,806</b>	<b>(1,313)</b>	<b>25,620</b>	<b>1,131</b>	<b>25,638</b>

In the above tables, available-for-sale financial assets are presented in the on demand category as management views these assets as highly liquid assets that can be readily sold in case of necessity to match cash outflows on financial liabilities.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets include cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks and other borrowings maturing within the next month, and commitments, excluding commitments secured by deposits. The Management tries to maintain the ratio above 25%. The reported ratios of net liquid assets to deposits from customers at the reporting date are as follows:

	<b>2012</b> <b>GEL'000</b>	<b>2011</b> <b>GEL'000</b>
Ratio of net liquid assets to deposits from customers	41.2%	23.3%

A similar, but not identical, calculation is used to measure compliance with the liquidity limit established by the NBG.

## 27 Capital management

The NBG sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for Banks. Under the current capital requirements set by the NBG, banks have to maintain a ratio of capital to risk weighted assets (regulatory capital ratio) above the prescribed minimum level. As at 31 December 2012, this minimum level is 12%. The Bank is in compliance with the statutory capital ratio during the years ended 31 December 2012 and 2011.

The calculation of capital adequacy based on requirements set by the NBG as at 31 December is as follows:

	<b>2012</b> <b>GEL'000</b>	<b>2011</b> <b>GEL'000</b>
<b>Primary capital</b>		
Share capital	9,079	5,912
Share premium	27,296	5,612
Retained earnings according to the NBG regulations (unaudited)	11,207	8,017
Deductions (unaudited)	(199)	(231)
<b>Total primary capital</b>	<b>47,383</b>	<b>19,310</b>

	2012 GEL'000	2011 GEL'000
<b>Secondary capital</b>		
Profit for the year according to NBG regulations (unaudited)	1,250	3,214
General reserve (unaudited)	1,731	1,290
Subordinated borrowings	3,319	3,462
<b>Total secondary capital</b>	<b>6,300</b>	<b>7,966</b>
Deductions (unaudited)	(9,326)	(5,201)
<b>Total authorized capital</b>	<b>44,357</b>	<b>22,075</b>
<b>Risk weighted assets, combining credit, market and operational risks (unaudited)</b>	<b>190,228</b>	<b>151,182</b>
<b>Total capital ratio (unaudited)</b>	<b>23.3%</b>	<b>14.6%</b>

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

## 28 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2012 GEL'000	2011 GEL'000
<b>Contracted amount</b>		
Guarantees	8,344	12,936
Undrawn credit line commitments	6,501	1,422
Undrawn overdraft facilities	6,694	6,516
Letter of credit	60	-
	<b>21,599</b>	<b>20,874</b>



The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As of 31 December 2012 and 2011 the Group had no customers whose balances exceed 10% of total commitments.

## 29 Operating leases

### (a) Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2012 GEL'000	2011 GEL'000
Less than 1 year	182	70
Between 1 and 5 years	502	5
	<b>684</b>	<b>75</b>

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

## 30 Contingencies

### (a) Litigation

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.

### (b) Taxation contingencies

The taxation system in the Georgia continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within Georgia suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in Georgia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant. In addition, the Group consults with qualified external tax advisors on a regular basis.

## 31 Related party transactions

### (a) Control relationships

The Group's parent company is Xinjiang HuaLing Industry & Trade (Group) Co Ltd. The party with ultimate control over the Group is Mi Enhua.

No publicly available financial statements are produced by the Group's parent company or ultimate controlling party.

### (b) Transactions with the members of the Supervisory Board and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2012 and 2011 is as follows:

	2012 GEL'000	2011 GEL'000
Members of the Supervisory Board	152	218
Members of the Management Board	431	713
	<b>583</b>	<b>931</b>

The outstanding balances and average interest rates as at 31 December 2012 and 2011 for transactions with the members of the Supervisory Board and the Management Board are as follows:

	2011 GEL'000	Average interest rate, %	2011 GEL'000	Average interest rate, %
<b>Consolidated statement of financial position</b>				
<b>ASSETS</b>				
Loans to customers	73	17%	538	16%
<b>LIABILITIES</b>				
Current accounts and deposits from customers	461	6%	422	5%

Amounts included in profit or loss in relation to transactions with the members of the Supervisory Board and the Management Board for the year ended 31 December are as follows:

	2012 GEL'000	2011 GEL'000
<b>Profit or loss</b>		
Interest income	51	54
Interest expense	(33)	(14)
Fee and commission income	5	-

**(c) Transactions with other related parties**

The outstanding balances and the related average interest rates as at 31 December 2012 and related profit or loss amounts of transactions for the year ended 31 December 2012 with other related parties are as follows:

	Entities with significant influence over the Group		Close family members of key management personnel		Entities under common control of the Group's parent company		Companies that are controlled or significantly influenced by key management personnel		Total
	GEL'000	Average interest rate, %	GEL'000	Average interest rate, %	GEL'000	Average interest rate, %	GEL'000	Average interest rate, %	
<b>Consolidated statement of financial position</b>									
<b>ASSETS</b>									
Loans to customers	-	-	32	18%	-	-	-	-	32
<b>LIABILITIES</b>									
Current accounts and deposits from customers	-	-	600	7%	2,192	5%	2	-	2,794
Other borrowed funds	1,461	7%	-	-	-	-	-	-	1,461
<b>Profit (loss)</b>									
Interest income	-	-	5	-	-	-	-	-	5
Interest expense	(172)		(13)		(143)		(6)		(334)
Fee and commission income	(8)		40		20		156		208

The outstanding balances and the related average interest rates as at 31 December 2011 and related profit or loss amounts of transactions for the year ended 31 December 2011 with other related parties are as follows:

	Entities with significant influence over the Group		Close family members of key management personnel		Companies that are controlled or significantly influenced by key management personnel		Total
	GEL'000	Average interest rate, %	GEL'000	Average interest rate, %	GEL'000	Average interest rate, %	
<b>Consolidated statement of financial position</b>							
<b>ASSETS</b>							
Loans to customers	65	17%	54	20%	408	19%	527
<b>LIABILITIES</b>							
Current accounts and deposits from customers	55	3%	414	4%	11,833	1%	12,302
Other borrowed funds	4,413	7%	-	-	-	-	4,413
<b>Profit (loss)</b>							
Interest income	15		11		58		84
Interest expense	(155)		(40)		(98)		(293)

## 32 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows are composed of the following items:

	<b>2012</b> <b>GEL'000</b>	<b>2011</b> <b>GEL'000</b>
Cash	12,985	11,747
Due from the National Bank of Georgia	5,359	3,560
Nostro accounts	5,260	6,547
	<b>23,604</b>	<b>21,854</b>

## 33 Financial assets and liabilities: fair values and accounting classifications

### (a) Accounting classifications and fair values

The estimated fair values of all financial instruments except for unquoted equity securities available-for-sale approximate their carrying values. As disclosed in note 15 the fair value of unquoted equity securities available for sale with a carrying value of GEL 63 thousand could not be determined as at 31 December 2012 and 31 December 2011.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 3%-5% and 12%-19% are used for discounting future cash flows from deposits and other advances to banks and loans to customers, respectively
- a discount rate of 1%-10% is used for discounting future cash flows from liabilities.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

**(b) Fair value hierarchy**

The Group measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 2: Valuation techniques based on observable inputs, either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised:

<b>GEL'000</b>	<b>Level 2</b>
Available-for-sale financial assets	<u><u>28,809</u></u>

The table below analyses financial instruments measured at fair value at 31 December 2011, by the level in the fair value hierarchy into which the fair value measurement is categorised:

<b>GEL'000</b>	<b>Level 2</b>
Available-for-sale financial assets	<u><u>20,008</u></u>

**34 Events after the reporting period**

On 19 March 2013 the Bank sold 100% of its subsidiary Basis Asset Management Limited for a total consideration of GEL 4,985 thousand.

On 29 March 2013 the Bank sold 100% of its subsidiary Basis Asset Management - Kobuleti Limited to its related party for a total consideration of GEL 2,987 thousand.