JSC INVESTBANK

Financial Statements
for the year ended 31 December 2011
and Independent Auditors' Report

Tbilisi
2012

C o n t e n t s

№ 2012/04/10/4 «24» April 2012

Independent Auditors' Report

To the Directorate, the Supervisory Board, the Shareholders of JSC INVESTBANK

We have carried out the audit of the JSC INVESTBANK's financial statements enclosed which includes the balance sheet, the profit and loss statement, statement of changes in equity and statement of cash flow and significant accounting policies and other explanatory notes. presented by the state of 31 December 2011.

Responsibility of the Management's for the Financial Report

Managment is responsible for the preparation of this Financial Report and its unbiased presentation according to International Accounting Standards. The said responsibility includes: elaboration, introduction and maintenance of an internal control system related to preparation and duly presentation of a financial report free from the essentially wrong information formed on the basis of forgery or mistakes; selection and application of an appropriate accounting policy and implementation of a well-founded accounting estimate.

Responsibility of the Auditor

The responsibility assumed by us is to present a conclusion based on the audit carried out by us in relation with this Financial Report. The audit was carried out by us according to International Standards on Auditing. On the basis of the mentioned standards, following the code of ethics, we are held responsible for planning and carrying out this audit to confirm that this Financial Report is free from essentially wrong information.

The audit includes the amounts presented in the Financial Report and carrying out the appropriate procedures in order to obtain audit data. The selected procedures depend on the professional speculations of the auditor including the evaluation of risks of essentially wrong presentation on the basis of forgery of the Financial Report or mistakes made in it. During the evaluation of such risks the auditor has discussed the internal control system which is connected to preparation and proper presentation of a financial report by the given entity in order to present a conclusion on elaboration of proper audit procedures corresponding to the existing circumstances and not on the effectiveness of the entity's internal control system.

Besides, the audit includes the evaluation of the conformity of the accounting policy applied by the administration and the substantiation of the accounting estimate as well as the assessment of general presentation of the financial report.

In our opinion the audit we have conducted is sufficient and appropriate to provide a basis for our audit conclusion.

Conclusion

The Financial statements presented in our report fairly, in all main material respects, reveals the financial position of the Bank as of December 31, 2011 and the financial performance and cash flows for mentioned date in accordance with International Financial Reporting Standards.

Levan Kistauri
Director
Business Management Bureau LLC

Ina Razmadze
Auditor

Tbilisi, 24 April, 2012

JSC INVESTBANK
Balance sheet as of December 31, 2011

(In thousand GEL)	*Note*	*31.12.2011*	*31.12.2010*
Assets			
Cash and Cash Equivalents	5	1601	851
Obligatory Balance in the National Bank of Georgia		366	113
Funds in other banks	5	9330	1512
Investments Possessed Before the Maturity Period	6	296	-
Loans and Advances to the Clients	7	3361	11956
Overdue Tax Asset	17	56	-
Fixed Assets and Intangible Assets	8	905	613
Other Assets	9	393	248
Total Assets		**16308**	**15293**
Libilities			
Clients' Funds	10	3295	2664
Deposits of other Banks	11	1675	
Other Liabilities	12	88	87
Total Liabilites		**5058**	**2751**
Capital			
Share Capital	13	17120	17120
Surplus on Share Price		100	100
Common Reserve		350	350
Undistributed Profit/Loss		(6320)	(5028)
Total Capital		**11250**	**12542**
Total Liabilities and Capital		**16308**	**15293**

Giorgi Gzirishvili
General Director

Eka Lapiashvili
Chief Accountant

სს ინვესტბანკი
INVESTBANK
204447349

(In thousand GEL)	*Note*	*31.12.2011*	*31.12.2010*
Interest Income	14	1518	2188
Interest Expenses	14	(290)	(52)
Net Interest Income		**1228**	**2136**
Reserve of Possible Loan/Asset Losses		(376)	215
Net Interest Income on Deterioration of Credit Portfolio after Creation of the Reserve		**852**	**2351**
Commission Income	15	433	234
Commission Expenses	15	(310)	(267)
Profit/Loss from Foreign Currency Dealing		128	80
Profit/Loss from Foreign Currency Revaluation		(233)	67
Other Operational Incomes		120	59
Administrative and Other Operational Expenses	16	(2662)	(2176)
Total Non-operational Profit/Loss		(2124)	(2003)
Profit/Loss before Taxation		**(1272)**	**348**
Expenditure of Income Tax		-	(21)
Payments from Net Profit		(20)	-
Net Profit/Loss		**(1292)**	**327**

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(In thousand GEL)	*Note*	*31.12.2011*	*31.12.2010*
Cash Flow from Operational Activity			
Profit before Taxation		(1272)	348
Losses of Reserve of Loans and Other Assets		376	(215)
Depreciation and Amortization		208	247
Own Loss and Loss Emerged During Delivery of Equipment			2
Overdue Payment		56	4
Surplus/Decrease of Operational Assets		(632)	386
Net Surplus of Obligatory Balances in the National Bank of Georgia		(252)	4
Investing Funds in Other Banks		(1700)	(93)
Investments Possessed Before the Maturity Period		(296)	
Net Surplus of Loans and Advances to Clients		7567	(1451)
Net Surplus of Other Assets		189	160
Surplus/Decrease of Operational Obligations			
Net Surplus of Other Banks' Funds		1675	-
Current Accounts and Customers' Deposits		641	629
Net Surplus of Other Obligations		1	(12)
Net Funds Received from Operational Activity/ (Used in Operational Activity)		**7193**	**(377)**
Cash Flows from Investment Activity			
Purchase of Fixed Assets and Intangible Assets		(327)	(199)
Income Received on the basis of Selling Fixed Assets		2	2
Net Funds Received from Investment Activity/ (Used in Operational Activity)		(325)	(197)
Cash Flows from Financial Activity			
Emission of Ordinary Shares		-	
Net Funds from Financial Activity		**-**	**-**
Net Surplus of Cash and Cash Equivalents		**6868**	**(574)**
Cash and Cash Equivalents at the Beginning of the Year		2363	2937
Cash and Cash Equivalents at the End of the Year	**5**	**9231**	**2363**

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(In thousand GEL)	Share Capital	Bonus on Share	Common Reserve	Undistributed Profit (Loss)	Total
By the State of December 31,2010	**17120**	**100**	**350**	**(5028)**	**12542**
Profit in 2011	-	-	-	(1292)	(1292)
Issuing of Shares	-	-	-	-	-
Declared and Paid Dividends	-	-	-	-	-
Balance by the State of December 31, 2011	**17120**	**100**	**350**	**(6320)**	**11250**

Giorgi Gzirishvili
General Director

Eka Lapiashvili
Chief Accountant

1. Main Activity

Joint Stock Company INVESTBANK ("the Bank") is a commercial bank which performs its activity on the basis of Banking Licence №241 granted by the National Bank of Georgia (NBG) on 29 September 2003.

JSC INVESTBANK was registered on 22 July 2003 in Krtsanisi-Mtatsminda Court, Tbilisi, registration №06/5-42. The Bank was registered at tax registration on 30 July 2003 and was granted taxpayer's identification number 204447349.

The Bank's legal address is: 3, Lesya Ukrainka Str., Tbilisi, Georgia.

The Bank's main activity is to manage clinets' accounts, attract deposits, issue loans and grants, carry out settlement operations, operations related to till, securities and foreign currencies.

The Bank's management works actively to introduce flexible and liable banking services by applying advanced banking technological systems and mechanisms of management, and to attract both the local and international customers. The Bank is planning to establish its own processing centre; the works in the direction of introducing new services and innovative banking products, developing correspondent relations, systems of express money order are underway.

By the state of 31 December 2011 the Bank has had the Central, Saburtalo and Airport Service Centers.

By the state of 31 December 2011 the Bank's shareholders are two non-resident companies the shares of which in the Bank's authorized capital are defined as follows:

- "KSN Foundation" – 70%;
- Trendfor Holding Ltd – 30%.

This Financial Report is given in thousand GELs. By the state of 31 December 2011 the final currency rate used for conversion of money balances presented in foreign currency equaled to 1 US dollar = 1.6703 GEL.

2. Bases of Submission

This Financial Report has been prepared according to International Financial Reporting Standards (IFRS) envisaging the fact that the Bank is an operating enterprise and has an ability to continue its work considering its existing financial state. The Bank makes its records according to the rules regulating Georgian banking activity and recording. The Financial Report has been prepared from the mentioned accounting record and corrected as required to bring it in conformity with meet International Financial Reporting Standards. This Financial Report has been drawn up in the Georgian national currency – GEL. The preparation of the Financial Report is the result of making evaluations which exert influence on the amounts of the assets and obligations presented in the report; the volume of conditional assets and obligations existing by the date of preparation of the Financial Report generated as the result of the operations carried out, and the amounts of incomes and expenditures presented in the accounting period. Despite the fact that these indices are based on the management's knowledge of the existing events and actions, the actual final results can differ from these evaluations.

3. Main Accounting Policy

Financial Instruments – Main Parameters of Evaluation

Financial assets and obligations are depicted in a report on a bank's financial state when a bank becomes a party of an agreement in connection with the appropriate financial instruments. Financial assets and obligations are recognized by the date of settlement.

Purchases, having regular nature of financial instruments, which will be evaluated with fair value between the days of sale and payment, are recorded in the way analogous to the purchased instruments. Financial assets and obligations are initially recognized as follows: fair value plus transaction value which is directly connected to purchase and issue of financial assets and obligations excluding the financial asset and obligation which is recorded in a report on gross profit with fair value.

According to the classification financial instruments are presented with real value or amortized value given below.

Real value is amount with which an asset can be exchanged or an obligation can be fulfilled between aware, concerned parties during a transaction concluded between independent parties with a principle. Real value presents a buyer's current price in connection with the assets and a seller's current price in relation with the obligations which are quote on an active market. As for the assets and obligations having compensated market risks, a bank can use average market prices in relation with the positions with a compensated risk in order to define real values and, in proper cases, in connection with an open position a bank can use a buyer's or a seller's prices. A financial instrument is discussed as quoted on an active market if quoted prices are available from an exchange house or any other institution in the ready and regular form, and such prices present transaction actually and regularly existing on market, concluded between independent parties with a principle.

Amortized value refers to amount which at the time of the initial recognition was considered as a financial instrument excluding any main coverage but including the accrued interest and in relation with financial assets excluding any writing off the loss cause by depreciation. The accrued interest includes amortization of the operational expenditure overdue during the initial recognition and any bonus or discount to the amounts to be paid by applying the method of effective exchange rate.

The initial recognition of financial instruments. Trade securities depicted in profit or loss with real value, produced and other financial instruments are initially depicted with real value. All other financial instruments are initially shown with real value including operational expenditure. The best way to confirm real value in an initial recognition is a transaction price. During an initial recognition profit or loss is depicted only in the case if there is a difference between real value and a transaction price and it is possible to confirm this.

Financial Assets

Financial assets are classified as the following categories: financial assets depicted with fair value in profit and loss, investments possessed before the period of coverage, financial assets to be sold and loans and demands. The classification depends on the specification and purpose of financial assets and is defined during the initial recognition.

Cancellation of Recognition of Financial Assets

The Bank cancels the recognition of financial assets when the assets have been paid back or the rights to cash flows generated form the assets have been depleted in some other ways or the rights to cash flows generated form financial assets have been transferred by the Bank or a conditional transaction on delivery has been concluded, and at the same time the Bank essentially transfers all risks and interests on ownership of the assets, or neither essentially transfers nor retains all risks and interests on ownership but does not enjoy the right to control. Control is considered to be retained if the opposite party does not have practical ability to sell an asset with full volume to the unconnected third person without imposing additional restrictions on sales.

Money and Money Equivalents

Money and money equivalents include money in a till, free funds on correspondent and time deposit accounts and advances issued to banks with up to 90 day initial term of payment the conversion of which into funds is possible in short term and which is concerned as liquidated.

With the purpose of defining money flows, usage of minimum obligatory deposit in the Notional Bank of Georgia is subject to limitation, it is not for financing everyday operations and does not belong to money and money equivalents, correspondingly.

Funds in Other Banks

In the process of its usual activity the Bank distributes the funds and puts money on deposits in other banks with different terms. Demands towards banks are initially depicted with fair value by applying the method of effective interest rate. Amounts in other banks are given with amortized value.

Investments Possessed before the Maturity Period

Investments possessed before the maturity period present non-derivative financial assets with definable or fixed payments. The banks have an intention and ability to keep the mentioned securities before occurring the maturity period. Such securities are depicted with amortized value based on the method of effective interest rate excluding the reserve of losses of depreciation.

Loans Issued to Clients

Loans issued to clients present non-derivative assets with fixed and defined price which are not quoted on active market except the assets classified in other categories of financial assets.

Such assets are recorded with amortized value by application of the method of effective interest rate.

Depreciation of Financial Assets with Amortized Value

The Bank depicts the depreciation of financial assets or a group of financial assets with the date of drawing up the Financial Report. Financial asset is considered to be depreciated when there exists an object basis of depreciation caused by any fact which occurred after initial recognition of an asset and the fact of loss affects possible future money flows of financial asset which can be defined for sure.

The basis of depreciation may indicate that a lender or a group of lenders are in financial difficulties, violate(s) the schedule of payment of interest or principle amount of loan, there is a possibility of its (their) bankruptcy, etc., or if the decrease in future money flows is likely as the result of change in economic conditions which will cause infringement of contractual terms.

Reserves of Losses of Depreciation

Definition of the reserve on depreciation is based on the analysis of risk assets and depicts the amount which covers the proper loss in the opinion of the administration. Reserves are defined with individual evaluation of risk assets. The change of the reserve of depreciation is resulted in the profit by means of the expenditure of the reserve (for financial assets depicted with amortized value) or direct list (for assets depicted with remaining value).

The Bank's administration supposes that the amount of the recorded depreciation is sufficient to cover the losses of assets subject to risk for the reporting date.

Fixed Assets

Fixed assets result in the Financial Report with historic value excluding the accumulated wear and tear and the reserves of depreciation. The initial recognition of purchased fix assets is carried out with real value. Expenses of small repairs and services for the fixed assets are paid only when they are occurred. Expenses of changing main parts and components of the fixed assets are subject to capitalization and the changed parts – to disposal.

Fixed assets are written off during the realization or in case if receiving future economic profit is not foreseen as the result of their usage. Profit or loss made by writing off units of the fixed assets present a difference between the net funds received after realization and the balance value of an asset. This is resulted in profit and loss during the realization of an asset.

Calculation of wear and tear of fixed assets is made by using the linear method according to which the value of each fixed asset excluding the liquidation value are distributed to the term of useful service according to the below listed norms:

Office and computer equipment	20% annually
Furniture, hardware and other equipment	15% annually
Vehicles	20% annually
Other fixed assets	8-15% annually
Capital expenditure on the buildings under lease	within the main lease period
Non-material assets	15% annually

Non-material assets purchased by the bank are shown with the cost price excluding accumulated amortization. Capitalization of the purchased computer software is carried out envisaging the expenditure made for purchase and operate the concrete software. Amortization is charged by using the linear method according to the accounting period of useful usage of non-material assets.

Operational Lease

In case if the Bank is a Lessee in relation with a lease by which all risks and incomes are not essentially transferred to the Bank from the Lessor, all lease payments will be resulted in profit and loss during the lease period by means of the linear method.

Clients' Funds

Clients' funds are non-derivative obligations towards physical persons, state or corporate clients and are shown with amortized value.

Current and Overdue Payments

Expenditure of the current payments is calculated from the annual taxable profit. Taxable profit differs from net profit which is shown in the Profit and Loss Account as it does not include the part of incomes and expenditure which are subject to taxation or deduction in the last years as well as the expenditure which is not subject to taxation or deduction in no way. Expenditure of the Bank's current payment is calculated with the tax rate which is applicable for the reporting period.

An overdue payment is generated on the basis of temporary differences existing between the remained values of the assets and obligations shown in the Financial Report and the taxable base used during the profit calculations. Outstanding tax obligations are subject to ordinary recognition for all temporary differences and outstanding tax assets are subject to recognition to the extent of well-found expectation that there will be taxable income in relation of which the existing temporary difference will be applied. Assets and obligations are not recognized if a temporary difference is caused by the initial recognition of the assets and obligations in the operations which do not affect either tax profit or accounting profit.

Outstanding tax obligations are subject to recognition by envisaging temporary differences which are revealed in fixed assets and non-material assets excluding the cases when the Bank controls changes and the formation of the reserve of temporary difference in near future has not been foreseen.

Remaining value of the outstanding tax asset is subject to reviewing for each reporting period and decreases as long as the expectation of sufficient taxable profit does no longer exist which will be used to restore all or some assets. Outstanding payment is calculated with the tax rate which is expected for the period of fulfilling the obligation or realization of an asset. Outstanding payment is resulted in profit and loss except the cases when it is directly connected to the capital.

Share Capital

Ordinary shares and unplayable privileged shares having discretional dividend are classified as capital. Additional expenditure related to issuance of new shares is resulted in the capital except tax in the form of deduction from incomes. Any surplus of real value of the received payment which exceeds the nominal value of the shares issued is resulted in the capital in the form of a bonus on the share.

Dividends

Dividends in the capital are depicted during the period of their declaration. After the balance date and before approving a financial report for being published any declared dividend is included in explanatory notes on the following events. The Bank' set financial reports are the basis of profit distribution and production of other belongings. According to Georgian legislation the basis of distribution is presented as the current year's net profit.

Recognition of Incomes and Expenditures

Interest incomes and expenditures are recognized by the method of accrual and are reflected by means of the method of an effective interest rate. An effective interest rate is the method which is based on the amortized value of a financial asset or a financial obligation and by means of which an interest income or expenditure is distributed to corresponding period.

An effective interest rate is the rate which carries out accurate discounting of payments or flows of possible funds to current net value of a financial asset or a financial obligation, depletion of the period of expected useful consumption of a financial instrument or, if its acceptable, within shorter term after a financial asset or a group of the like financial assets have been written off (or have been partially written off) because of the losses received as the result of the depreciation. An interest income is recognized by the interest rate which is used for discounting of expected funds with the purpose of determining the losses of the depreciation. An interest received from the assets depicted with a fair value results in an interest income.

Revalue of Foreign Currency

Transactions made in foreign currency are accounted according to the exchange rate existing on the date of an operation. Differences of the exchange rate received as the result of execution of transactions in foreign currency are shown in a profit-loss sheet according to the exchange rate existing on that date.

Monetary assets and obligations given in foreign currency are converted in Georgian Lari according to the official exchange rate set by the National Bank of Georgia by the last day of an accounting period.

Offset Payment

Financial assets and obligations are subject to offset payment and net amount shows them in balance only in case if there is the active legal right of offset of recognized amounts and the intention to carry out offset on the net basis or simultaneous realization of an asset and fulfillment of an obligation is clear.

4. Adoption of New and Edited Standards and Interpretations

In the current year new and edited IAS and IFRS standards and interpretations have been adopted:

IAS 24 – Amendment to *"Related Party Disclosures"* (Part of improvement of IFRS published in 2009) envisages partial exemption from the requirements of submitting information on connected parties and outstanding balance including obligations to organizations connected to the government. In addition, some early unilateral instructions in connection with submission have been simplified, its meaning have been specified and discrepancies existing in the explanation have been minimized (valid for the period commenced on 1 January 2011, an early application is possible).

IFRS 9 – "Financial Instruments", *Classification and Evaluation* (Edited in 2010) requires all recognized financial assets related to IAS 39 "Financial Instruments: Recognition and Evaluation" to be presented in the following from:

- Financial assets shall be classified into to evaluation categories: Financial assets which shall be later evaluated with real value and financial assets which shall be later evaluated with amortized value. An appropriate decision shall be made during the initial recognition. The classification depends on the business model of management of its financial instruments by an entity and the properties of contractual money flows of an appropriate instrument.
- Evaluation of an instrument is carried out with an amortized value only in case when it is a debt instrument and the aim of an entity's business model is to maintain an appropriate asset with the purpose to collect contractual money flows and contractual money flows of an asset only present principal and interest payments ("Main Loan Properties"). All other debt instruments shall be

evaluated with real value in profit or loss.

- All equity instruments shall be later evaluated with real value. All equity instruments for trade shall be later evaluated with real value in profit or loss. Final selection may be carried out in relation with all other equity investments during the initial recognition in order to recognize profit and loss of non-realized and realized real value in other joint income rather than in profit and loss. Application of profit and loss of a real value in profit or loss has been worked out. The mentioned selection can be carried out with the principle of "each instrument". Dividends shall be presented in profit or loss as they are income on an investment.
- Most of the requirements defined by IAS 39 and connected to the classification and evaluation of financial obligations have been prolonged in an unchanged form in relation with "IFRS 9". The main amendment is the requirement in relation with an enterprise to submit the result of changes in its credit risks of financial obligations resulted in profit or loss with real value in other joint income.

It is obligatory to apply IAS 39 from 1 January 2012 with possibility of an early application.

Explanatory information – Transmission of Financial Assets – Amendments to IFRS 7 (published in October 2010 and become effective on 1 July 2011 and in relation with annual periods begun after this date). According to the mentioned amendment it is obligatory to submit additional explanatory information on risk occurred on the basis of the presented financial assets. The amendment includes such kind of requirement which, according to the class of an asset, envisages submitting explanatory information on the type of the financial assets, the balance value and risks, and payment which have been transferred to the second party, although they are still on an enterprise's balance. The mentioned explanatory information is also necessary to give a reviewer an opportunity to obtain information on the interrelationship between the volume of any connected obligations and proper financial assets and connected obligations. When financial assets are recognized for the second time and an enterprise again subordinates to influence of the certain risks and payments which are connected to the transmitted assets, it is obligatory to submit additional explanatory information showing the results of suck risks.

Amendments to International Financial Reporting Standards (published in May 2010, in force since 1 January 2011). The mentioned amendments are presented in the form of the important changes and specifications of the following standards and explanations: The amendment has been made to IFRS 1 according to which it is allowed to use a balance value defined on the basis of generally set principles of accounting as a conditional value of property, a unit equipment or a non-material asset. If such unit is used in operations subordinated to rate regulation, it is allowed to use the revaluation based on events as a conditional value of property, a unit equipment, if such revaluation is carried out during the period discussed in the financial report submitted according to IAS standards, and a person who is shifting to the standards for the first time is required to submit explanations on the changes in the reporting methods between his first interim report and financial report or the changes in amicabilities defined by IFRS 1;

An amendment has been made to IFRS 3 according to which it is obligatory to evaluate the non-controlling shares with a real value (if no other evaluation is obligatory according to other standards of IFRS) which do not present the right to property or do not grant an owner rights to a proportional share in net assets in case of liquidation. There are explanations in connection with the instructions on transactions conducted with share-based payments of an entity to be purchased and been replaced or voluntarily replaced as the result of amalgamation of enterprises. It is defined that expected payments from amalgamations of enterprises that had taken place before the edited version of IFRS 3 became effective shall be recorded according to the instructions given in the previous edition of IFRS 3;

An amendment has been made to IFRS 7 according to which certain requirements connected to explanatory information has been defined, in particular, quantitative and qualitative explanatory notes of type and quantity of financial risks have been especially highlighted; the requirement to submit explanatory information on a balance value of financial assets agreed again which would be overdue or depreciated has been cancelled; the requirement to submit explanatory information on a real value of security has been replaced by a general requirement of submitting explanatory information on its financial results, and it has been determined that an enterprise shall submit explanatory information on deducted value of security by an accounting period and not on the amount received during an accounting period;

Amendments have been made to IAS 27 according to which the transitional rules related to the amendments to IAS 21, IAS 28 and IAS 31 made on the basis of edited IAS 27 have been explained (January 2008); Amendments have been made to IAS 34 according to which additional samples of those important events and operations have been introduced in connection with which it is obligatory to submit explanatory information in a brief interim financial report and which include transitions within the structure of a real value, changes in the classification of financial assets or changes in a business or economic environment which affects the indicators of a real value of enterprise's financial instruments;

Hyperinflation and cancellation of fixed dates for persons shifting for the first time – amendments to IAS 1 (published in December 2010 and in force in relation with annual periods commenced on 1 July 2011 or afterwards). On the basis of this amendment related to hyperinflation an additional privilege has been determined in connection with the cases when an enterprise which has been affected by hyperinflation can renew or submit a financial report for the first time according to IAS. The said privilege gives an enterprise an opportunity to evaluate certain assets and obligations with a real value and to use such a real value in an initial report on a financial condition submitted according to IAS as a conditional value.

Amendment, submission of IAS 7 – transferring of financial assets increases the requirements of submission in connection with a transaction on transferring financial assets. These changes aim at providing more transparency of subordination to a risk during transferring a financial asset, though a transferor maintains risks connected to an asset to some extent. Amendments also need to be submitted in case if transferring of financial assets is equally distributed on an appropriate period. IAS 7 is valid for an annual accounting period commenced on 1 June 2011.

The mentioned amendments have not caused important changes and have not affected on the Bank's Financial Report.

5. Cash and Cash Equivalents

(In thousand GEL)	**31.12.2011**	**31.12.2010**
Cash on hand	1601	851
Balances of funds in the NBG (excluding obligatory reserve deposits)	121	62
Nostro accounts at correspondent banks and other financial institutions		
in Georgia	4867	731
in other countries	2642	719
Deposits in Banks	1700	
Total Cash and Cash equivalents	***10931***	***2363***

By the state of 31 December 2011 the obligatory reserve in the NBG (National Bank of Georgia) equals to 366 thousand GEL, by 31 December 2010 the reserve had amounted to 113 thousand GEL.

By the state of 31 December 2011 the credit quality of the balances of the funds and their equivalents can be summed up with the following form:

(In thousand GEL)	Balances of funds in the NBG excluding obligatory reserves	Correspondent accounts and overnight deposits	Total
- National Bank of Georiga	121	-	121
- Ten largest Georgian banks	-	6567	6567
- Non-resident banks	-	2642	2642
Total Cash and Cash equivalents	***121***	***9209***	***9930***

6. Investments Possessed before the Maturity Period

Investment possessed before the maturity period are presented in the form of deposit certificates issued by the National Bank which are purchased by the Bank by means of auctions. They are accounted with a nominal value and the difference between an accounting price of a deposit certificate and a nominal value presents a discount which is taken in the income at the end of each month according to the expiry date of the certificate and the interest rate.

(In thousand GEL)	31.12.2011	31.12.2010
Deposit cerificates	300	-
Discount	(4)	-
Investments Possessed before the Maturity Period	*296*	-

The explanatory notes given on pages 9-34 present the integral part of this Financial Report.

7. Loans and Advances Issued to Clients

(In thousand GEL)	31.12.2011	31.12.2010
Current (standard) loans	2876	10622
Overdue loans (loans classified as negative)	894	715
Interests to be received according to loans issued	545	1501
Reserve of depreciation of credit portfolio	(954)	(882)
Total loans and advances issued to clients	***3361***	***11956***

Concentration of risks of the economic sector in clients' credit portfolio is presented as follows:

(In thousand GEL)	2011	%	2010	%
Loans issued to physical persons	1659	44	3041	27
Loans issued to the sphere of trade and service	819	21.7	2181	19
Loans issued to the construction sector	–	–	-	-
Loans issued to the transport and communications sector	–	–	-	-
Loans issued to the agricultural sector	–	–	-	-
Loans issued to other sectors	1292	34.3	6115	54
Total loans and advances issued to clients before the depreciation	**3770**	**100**	**11337**	**100**

The explanatory notes given on pages 9-34 present the integral part of this Financial Report.

By the state of 31 December 2011 the information on security is presented as follows:

(In thousand GEL)	Loans issued to the trade and service sector	Loans issued to physical persons	Loans issued to other sectors
Loans without security	28	450	125
Loans secured with:			
- Monetary deposits	-	–	-
- Production reserves and complete products	-	-	4
- Vehicles	-	161	-
- Guarantee of the third person		83	1
- Immovable property	323	690	829
- Securities	468	-	334
- Guarantees	-	-	-
- Other assets	-	274	-
Total loans and advances issued to clients	***819***	***1658***	***1293***

By the state of 31 December 2011 the Bank had 434 lenders instead of 502 by the state of 31 December 2010.

Volume of the loan is given below:

Amount of issued loan	Volume of loans 2011	Share in the total quantity of loans %	Volume of loans 2010წ.	Share in the total quantity of loans %
From 1 GEL through 1,000 GEL	202	46.54	79	15.74
From 1,000 GEL through 2,000 GEL	114	26.27	121	24.10
From 2,000 GEL through 20,000 GEL	89	20.51	234	46.61
From 20,000 GEL through 50,000 GEL	14	3.23	23	4.58
From 50,000 GEL through 100,000 GEL	6	1.38	21	4.18
Over 100,000 GEL	9	2.07	24	4.78
TOTAL	***434***	***100***	***502***	***100***

Maturity of loans is given as follows:

Term of loan	Volume of loans 2011	Share in the total quantity of loans %	Volume of loans 2010.	Share in the total quantity of loans %
1 month	39	8.99	39	7.77
1-3 months	4	0.92	6	1.20
3-6 months	28	6.45	50	9.96
6-12 months	115	26.50	123	24.50
More than 12 months	248	57.14	284	56.57
TOTAL	***434***	***100***	***502***	***100***

Classification according to the interest rate of the loans issued by the Bank:

Annual interest rate of loan	Volume of loans 2011	Share in the total quantity of loans %	Volume of loans 2010.	Share in the total quantity of loans %
5 % - 10 %	–	–	–	–
10 % - 15 %	1	0.23	1	0.2
15 % - 20 %	136	31.34	177	35.26
20 % - 25 %	232	53.46	251	50.00
25 % - 30 %	63	14.52	71	14.14
30 % - 35 %	1	0.23	1	0.2
Over 35 %	1	0.23	1	0.2
TOTAL	***434***	***100***	***502***	***100***

8. Fixed Assets and Intangible Assets

(In thousand GEL)	**Office, computer equipment, commission and furniture**	**Vehicles**	**Improvement of property taken under lease**	**Total fixed assets**	**Intangible assets**	**TOTAL**
Balance value by the state of 31 December 2010	**1168**	**165**	**109**	**1442**	**526**	**1968**
Accumulated amortization by the state of 31 December 2010	*(827)*	*(161)*	*(76)*	*(1064)*	*(292)*	*(1356)*
Growth	196	10	75	281	20	301
Outlet	(8)	(165)		(173)		(173)
Correction growth/outlet	7		26	33	(7)	26
Outlet on amortization costs	4	161		165	6	171
Amortization costs in 2011	*(119)*	*(2)*	*(29)*	*(150)*	*(59)*	*(209)*
Balance value by the state of 31 December 2011	**1363**	**10**	**210**	**1583**	**539**	**2122**
Accumulated amortization by the state of 31 December 2011	942	2	105	1049	345	1394
Remaining value by the state of 31 December 2011	**421**	**8**	**105**	**534**	**192**	**726**

The land – 22 thousand GEL and flats – 157 thousand GEL are on the Bank's balance as well.

9. Other Assets

(In thousand GEL)	31.12.2011	31.12.2010
Accounts receivable	225	90
Advance payments	32	19
Accrual of reserves	(13)	(10)
Payments paid in advance	109	118
Other receivables according to fixed assets	12	
Property left in pledge	35	45
Reserve accoriding to the property left in pledge	(16)	(14)
Interests to be reveived from funds at banks	9	–
Total other assets	***393***	***248***

10. Clients' Funds

(In thousand GEL)	31.12.2011	31.12.2010
Other legal entities		
- Current/settlement accounts	1812	603
- Time deposits	100	-
Physical persons		
- Current/demand accounts	213	909
- Time deposits	1154	1141
Interests accrued on time deposits	16	11
Total clients' funds	***3295***	***2664***

11. Deposits of Other Banks

(In thousand GELs)	31.12.2011	31.12.2010
Time deposit	1670	–
Interests accrued on deposit	5	–
TOTAL	**1675**	**-**

12. Other Liabilities

Other liabilities are given as follows:

(In thousand GEL)	31.12.2011	31.12.2010
Account payable	18	44
Current Liabilities	60	40
Payment obligation	10	–
Overdue payment obligation	–	3
Total other liabilities	***88***	***87***

The explanatory notes given on pages 9-34 present the integral part of this Financial Report.

13. Share Capital

By the state of 31 December 2011 the following shareholders posses the Bank's shares:

	2011	2010
"KSN Foundation"	70%	71.99%
"Trendfor Holding" LTD	30%	28.01%
Total share capital:	***100%***	***100%***

"KNS Foundation" possesses 1,198,400 shares, 70% of the Bank's share capital.

"Tendfro Holding" Ltd possesses 513,600 shares, 30% of the Bank's share capital.

Nominal value of one share is 10 GEL.

14. Interest Income and Expenses

(In thousand GEL)	31.12.2011	31.12.2010
Interest income		
Loans and advances issued to clients	1264	2175
Other interest amounts (from the NBG)	1	-
From nostro accounts and deposits opened at other banks	253	13
Interest income form grants	-	-
Total interest income	**1518**	2188
Interest expenses		
Time deposits and loans of other banks	(150)	
Clints' current accounts and deposits	(140)	(52)
Total interest expenses	**(290)**	(52)
Net interest profit	***1228***	***2136***

15. Commission Income and Expenses

(In thousand GEL)	**31.12.2011**	**31.12.2010**
Commission income		
On operations of commission payment	358	182
On operations of commission payment with cash	75	52
Total commission income	***433***	***234***
Commission expenses		
On operations of commission payment	(310)	(265)
On operations of commission payment with cash	–	(2)
Total commission expenses	***(310)***	***(267)***
Net commission profit/loss	***123***	***(33)***

16. Administrative and Operational Expenses

(In thousand GEL)	31.12.2011	31.12.2010
Expenditure in connection with the personnel	1251	1356
Amortization of fixed assets	209	247
Other expenditure related to fixed assets	23	11
Professional services	32	55
Other	747	507
Total administrative and other operational expenditure	***2262***	***2176***

17. Overdue Tax Asset

The Bank carries out payment settlement on the basis of tax legislation in Georgia which varies from International Financial Reporting Standards. The Bank undergoes through permanent payment differences as the result of deduction of certain non-payment costs and incomes exempted from tax.

Payments overdue for the purposes of the financial report show balance value of assets and obligations and net tax effects of temporarily differences among the amounts used for tax purposes. Temporarily differences are mainly connected to different methods of recognition of incomes and expenditures. The tax rate used for summarizing the data is 15%.

Tax asset overdue in 2011:

(In thousand GEL)	**31.12.2011**	**31.12.2010**
Overdue tax asset	56	-
Overdue tax obligation	–	3

18. Financial Risk Management

Risk management plays an important role in banking activities and is the main element of bank operations. Among the risks faced by the Bank the most important is the one which is connected to a market risk which include value, interest rate, currency, credit and liquidity risks. The policy of risk management envisages defining, analyzing and managing risks faced by the Bank, establishing limits appropriate to a risk and mechanisms of risk management, and carrying out permanent monitoring of maintaining risk levels and limits.

Market Risk

Market risk is a risk that the changes made in market prices, including currency rates, interest rates, credit spreads and prices of capital, may affect the Bank’s incomes or the value of its portfolios. Market risk depends on open positions, existing in currency and partially in financial instrument, which are affected by general and certain changes occurring on market as well as changes made in the level of sensitiveness of market prices. The goal of market risk management is to manage the components of market risk and maintain them within the acceptable parameters, and optimize profit risks. Market risk management is carried out by means of establishing limits of open position for financial instruments interest rates and currency positions, regular monitoring and reviewing these limits.

Price Risk

Price risk is a risk of fluctuation of the value of financial instruments as the result of variation of market process. Price of a financial instrument fluctuates in connection with variation of market prices. The mentioned variations are caused by the factors which are specific for a concrete instrument or by the factors which affect all instruments sold on market. Price risk occurs when a bank carries out decrease/increase in a financial instrument by an urgent transaction.

Credit Risk

Credit risk is a risk of Bank's financial loss which is caused by non-fulfillment of the obligations assumed by a lender before the Bank. The Bank has elaborated the policy and procedures to manage credit risk. The Bank shall define limits connected to the level of credit risk and carry out their regular monitoring. The Banks shall carry out their regular monitoring of credit investments and revaluate customer's credit solvency. Evaluation of the whole credit portfolio and credit concentration shall be implemented for better management of credit risk.

Interest Risk

Interest risk is a risk of the fact that the changes made in interest rate may affect the Bank's incomes or portfolios of financial instruments. The Bank's financial state and money flows are affected by fluctuation of the existing levels of market interest rates affect. Such changes may result in increase or decrease in interest margins and loss at the time of occurring unexpected changes.

Management of interest rate risk is mostly carried out by monitoring of GAPs of interest rates. Interest rate risk occur when factual or predictable assets having the defined term of payment either exceed or are less than factual or predictable obligations existing in the same term of payment.

The below given table shows the Bank's subordinations to interest rate risks, general amounts of the Bank's financial assets and obligations given with balance value. These amounts are presented by transactions according to rate revaluing or maturity dates depending on the fact which date is earlier.

(In thousand GELs)	By 1-month term	By the term from 1 to 3 months	By the term from 3 to 6 months	By the term from 6 to 12 months	By the term of more than 12 months	Total		
Assets						Fixed	Non-interest	
Cash	-	-	-	-	-	-	1601	1601
Funds in the National Bank of Georgia	366	-	-	-	-	366	121	487
Fund at other banks	8370	-	296	-	-	8666	839	9505
Net loans	1038	208	253	281	1035	2816	-	2816
Receivable interest and dividend accrued	-	-	-	-	-	-	545	545
Fixed assets and non-material assets	-	-	-	-	-	-	905	905
Other assets	-	-	-	-	56	56	393	449
Total assets	9774	208	549	281	1091	11904	4404	16308
Obligations								
Deposits of banks	1670	-	-	-	-	1670	-	1670
Current deposits (accounts)	-	-	-	-	-	-	1757	1757
Demand deposits	293	-	-	-	-	293	-	293
Time deposits	170	775	273	5	5	1229	-	1229
Payable interest and dividend accrued	-	-	-	-	-	-	21	21
Other obligations	–	-	-	-	-	-	88	88
Total obligations	2133	775	273	5	5	3192	1866	5058
GAP –position of cumulative interest rate risk	7641	-567	276	276	1086	8711	2538	
Cumulative assets / with cumulative obligations	358,23 %	73,16%	101,10%	5520%	21720%	272,90%	136,01%	

The explanatory notes given on pages 9-34 present the integral part of this Financial Report.

Currency Risks

Currency risk is a risk that the value of a financial instrument will change with variation of exchange rate of a foreign currency. The Bank's financial position and money flows subordinate to the influence of variation of exchange rate of a foreign currency. Change of exchange rate affects the Bank's income and value of its financial instrument portfolios.

Proper limits on daily positions are defined in relation with risks and their monitoring is carried out every day.

By the state of 31 December 2011 in relation with different currencies the Bank's state was as follows:

	By the state of 31 December 2011			By the state of 31 December 2010		
(In thousand GEL)	**Total assets**	**Total obliga-tions**	**Net balance positon**	**Total assets**	**Total obligat-ions**	**Net balance positon**
Georgian lari	9764	700	9064	11555	482	11073
US dollar	3680	3485	195	3155	1768	1387
Euro	2770	873	1897	523	501	22
Swiss franc	1		1			
Pound sterling	21	–	21	4	-	4
Russian rouble	15	-	15	2	-	2
Turkish lira	8	–	8	–	–	–
Ukraine hryvnia	3	–	3	–	–	–
United Arab Emirates dirham	3	–	3	–	–	–
Iranian rial	43		43	–	–	–
Total	***16308***	***5058***	***11250***	***15239***	***2751***	***12488***

Liquidity Risk

Liquidity risks are risks that the Bank may face difficulties during obtaining funds while fulfilling obligations related to financial instruments. For sufficient funds necessary for securing possible flows of deposits or other financial obligations the Bank maintains liquidity management to insure that the funds are available at any period in order to fulfill appropriate obligation in relation with funds flow when it comes maturity date.

Liquidity risk occurs when there is some difference between maturity dates of assets and obligations. In order to manage liquidity risks the Bank carries out daily monitoring of clients and money flows expected in connection of bank operations. Monitoring is an integral part of the process of assets/obligations management. At certain time intervals the Bank determines money flows necessary for securing liquidity and maintains the level of quick assets and high quality assets. According to normative requirements the Bank carries out everyday monitoring of the coefficients of liquidity as well as permanent monitoring of the structure of assets and obligations according to the time intervals. The table below gives the Bank's liquidity position by 31 December 2011:

(In thousand GEL)	By 1-month term	By the term from 1 to 3 months	By the term from 3 to 6 months	By the term from 6 to 12 months	By the term of more than 12 months	Total
Assets						
Cash	1601	-	-	-	-	1601
Funds in the National Bank of Georgia	487	-	-	-	-	487
Fund at other banks	9209	-	-	-	-	9209
Investment securities	-	296	-	-	-	296
Net loans	1038	208	253	281	1036	2816
Receivable interest and dividend accrued	272	71	32	63	107	545
Fixed assets and non-material assets	-	-	-	-	905	905
Appropriated real and movable property	-	-	-	-	35	35
Other assets	272	7	11	3	121	414
Total assets	12879	582	296	347	2204	16308
Obligations						
Deposits of banks	1670	-	-	-	-	1670
Current deposits (accounts)	1757	-	-	-	-	1757
Demand deposits	293	-	-	-	-	293
Time deposits	171	775	273	5	5	1229
Payable interest and dividend accrued	19	-	-	-	1	20
Other obligations	89	-	-	-	-	89
Total obligations	3999	775	273	5	6	5058
position of cumulative liquidity	–3727	-193	23	342	2197	
Cumulative assets / with cumulative obligations	-931,98%	-24,90%	8,42%	6840%	36616,66%	

The explanatory notes given on pages 9-34 present the integral part of this Financial Report.

Operational Risk

Operational risk is a risk which may occur as the result of possible system failure, human error, fraud and external factors. In case of non-existence of control an operational risk may cause financial loss, ruining of reputation and legal difficulties. The Bank shall try to manage the mentioned risks, establish control by means of monitoring the environment and potential risks and adequate reaction to them, Control means distribution of duties, evaluation of procedures of authorization and comparison.

19. Related Party Transactions

The parties are related to each other if one party has a chance to control the other or exert important influence on the second party during making financial or operations decision according to IAS 24 “Related Party Disclosures”. During discussion of relations with each related party attention shall be paid to the content of such relations and not simply a legal form.

By the state of 31 December 2011 the outstanding balances of the related parties is given in the table below:

	Amount of debt (GEL)
Members of the Bank’s Supervisory Board	236209
Members of the Bank’s directorate	47599
Bank’s personnel	*89101*
Persons related to the Bank’s administrators	*1248947*
TOTAL	*1621856*

20. Events after the Date of Balance

After the date of balance there were no events which would have caused additional amendments and changes to this Financial Report.

The explanatory notes given on pages 9-34 present the integral part of this Financial Report.