BATUMI BRANCH OF JSC IŞ BANK TURKEY

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the period from inception till 31 December 2012

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The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of BATUMI BRANCH OF JSC IŞ BANK TURKEY (hereinafter - the Bank).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank at 31 December 2012 and the results of its operations, cash flows, and changes in equity for the period then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Bank operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the period from inception till 31 December 2012 were approved on behalf of the board of directors on 17 April 2013 by:

Chief Executive Officer	____________________	B.Sariibrahim
Chief Financial Officer	____________________	G. Khukhuni

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of BATUMI BRANCH OF JSC IŞ BANK TURKEY

Report on the Financial Statements

We have audited the accompanying financial statements of the BATUMI BRANCH OF JSC IŞ BANK TURKEY (hereinafter - the Bank), which comprise the statement of financial position as at December 31, 2012, and the statements of comprehensive income, changes in equity and cash flows for the period from inception till 31 December 2012 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects the financial position of **BATUMI BRANCH OF JSC IŞ BANK TURKEY** as at 31 December 2012, and its financial performance and its cash flows for the period from inception till 31 December 2012 in accordance with International Financial Reporting Standards.

17 April, 2013

Tbilisi, Georgia

BATUMI BRANCH OF JSC IŞ BANK TURKEY

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

(In Georgian Lari)

	Note	31 December 2012
Assets		
Cash and cash equivalents	5	13,910,729
Mandatory balances with the NBG	6	61,056
Other receivables	7	15,400
Property, equipment and intangible assets	8	568,672
Deferred income tax assets	9	57,737
Total assets		**14,613,594**
Liabilities		
Due to banks	10	1,052,128
Customer accounts	11	960,509
Other liabilities	12	163,873
Total liabilities		**2,176,510**
Equity		
Statutory capital	13	12,828,043
Accumulated deficit		(390,959)
Total equity		**12,437,084**
Total liabilities and equity		**14,613,594**

Signed on behalf of board of directors on 17 April 2013 by:

Chief Executive Officer ______________________ B.Sariibrahim

Chief Financial Officer ______________________ G. Khukhuni

The notes on pages 9-33 form an integral part of these financial statements.

BATUMI BRANCH OF JSC IŞ BANK TURKEY

STATEMENT OF COMPREHENSIVE INCOME

For the period from inception till 31 December 2012

(In Georgian Lari)

	Note	Period from inception till 31 December 2012
Interest income	14	231,355
Interest expense	14	(1,194)
Net interest income		**230,161**
Fee and commission income	15	17,565
Fee and commission expense	15	(3,512)
Net loss on foreign exchange operations	16	(2,296)
Net non-interest income		**11,757**
Operating income		**241,918**
General and administrative expenses	17	(282,256)
Salaries and other employee benefits	18	(233,646)
Taxes other than income tax	19	(132,093)
Depreciation	8	(42,619)
Operating expenses		**(690,614)**
Loss before income tax		**(448,696)**
Income tax benefit	9	57,737
Other comprehensive income		-
Total comprehensive loss for the period		**(390,959)**

Signed on behalf of board of directors on 17 April 2013 by:

Chief Executive Officer ____________________ B.Sariibrahim

Chief Financial Officer ____________________ G. Khukhuni

The notes on pages 9-33 form an integral part of these financial statements.

BATUMI BRANCH OF JSC IŞ BANK TURKEY

STATEMENT OF CHANGES IN EQUITY

For the period from inception till 31 December 2012

(In Georgian Lari)

	Note	Statutory capital	Accumulated deficit	Total
Balance at 13 July 2012		**-**	**-**	**-**
Increase of the statutory capital	13	12,828,043	-	**12,828,043**
Total comprehensive loss for the period		-	(390,959)	**(390,959)**
Balance at 31 December 2012		**12,828,043**	**(390,959)**	**12,437,084**

Signed on behalf of board of directors on 17 April 2013 by:

Chief Executive Officer ________________________ B.Sariibrahim

Chief Financial Officer ________________________ G. Khukhuni

The notes on pages 9-33 form an integral part of these financial statements.

BATUMI BRANCH OF JSC IŞ BANK TURKEY

STATEMENT OF CASH FLOWS

For the period from inception till 31 December 2012

(In Georgian Lari)

	Note	Period from inception till 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss before income tax		**(448,696)**
Adjustments for:		
Depreciation expenses	8	42,619
Net change in interest accruals		857
Operating expenses		163,873
Cash outflow from operating activities before changes in operating assets and liabilities		**(241,347)**
Increase in operating assets:		
Mandatory balances with the NBG		(61,265)
Other receivables	7	(15,400)
Increase in operating liabilities:		
Due to banks		1,045,629
Customer accounts		961,894
Net cash inflow from operating activities		**1,689,511**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	8	(598,553)
Purchase of intangible assets	8	(12,738)
Net cash outflow from investing activities		**(611,291)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from increase of the statutory capital	13	12,828,043
Net cash inflow from financing activities		**12,828,043**
Net increase (decrease) in cash and cash equivalents		**13,906,263**
Cash and cash equivalents at the beginning of the period		-
Effect of exchange rate fluctuations on the cash and cash equivalents held in foreign currencies		4,466
Cash and cash equivalents at the end of the period	5	**13,910,729**

Signed on behalf of board of directors on 17 April 2013 by:

Chief Executive Officer ____________________ B.Sariibrahim

Chief Financial Officer ____________________ G. Khukhuni

The notes on pages 9-33 form an integral part of these financial statements.

1. GENERAL INFORMATION

BATUMI BRANCH OF JSC IŞ BANK TURKEY (the "Bank") was registered on 13 July 2012 as the branch of foreign banking institution in Georgia with the registration number 445413375. The Bank obtained general banking license as required by Georgian legislation and is regulated by the National Bank of Georgia ("NBG").

The Bank's principal business activity is commercial and retail banking operations including money transfers, trading with foreign currencies, deposit placements, etc. The bank had disbursed no loan by 31 December 2012, however as disclosed in Note 24 (events after the reporting period) the bank started issuing loans to customers which is supposed to be one of the bank's principal activities.

The bank's registered office is located on 1 L.Asatiani St. / 25 Rustaveli St. Batumi, Georgia. As at December 31, 2012 the Bank had one service center at Batumi International Airport.

As at December 31, 2012 the following shareholder owned the the Bank:

Shareholder	31 December 2012, %
First level shareholder:	
JSC IŞ Bank Turkey	100%
Total	**100%**

The bank is ultimately owned by the following shareholders: İşbank Personnel Supplementary Pension Fund (41%), Turkish Republican People's Party (28%) and other shareholders with less than 5% individually (31% in total).

The Board of Directors approved these financial statements for issue on 17 April, 2013 and have the power to amend the financial statements after issue.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB).

The principal accounting policies adopted in the preparation of the financial statements are set in the Note 3.

Basis of measurement

These financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments based on fair value.

The Bank maintains its records and prepares financial statements in Georgian Lari (GEL) in accordance with International Financial Reporting Standards (IFRS) as required by Georgian legislation. These financial statements cover the period from 13 July 2012 (date of inception) to 31 December 2012. The reporting period for the Bank is the calendar year from January 1 to December 31.

The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires Bank management to exercise judgment in the most appropriate application in applying the Bank's accounting policies.

2. BASIS OF PREPARATION (continued)

The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 4.

Going concern

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue its operations for the foreseeable future. The management and shareholder have the intention to further develop the business of the Bank in Georgia. The management believes that the going concern assumption is appropriate for the Bank.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal accounting policies applied in the preparation of these financial statements are set out below. These policies are consistently applied to all the information presented, unless otherwise stated.

Financial Instruments

Key measurement terms

Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, are not presented separately and are included in the carrying values of related balance sheet items.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

(a) Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets. The Bank determines the classification of its financial assets upon initial recognition.

Fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss. They are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Held to maturity investments

Non derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Bank has positive intention and ability to hold them upon maturity.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally the Bank's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities as well as corporate bonds. They are carried at fair value with changes in fair value generally recognised in other comprehensive income and accumulated in the available-for-sale reserve; Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive income, is recognised in profit or loss.

Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available-for-sale reserve. On sale, the cumulative gain or loss recognised in other comprehensive income is reclassified from the available-for-sale reserve to profit or loss. The Bank does not have any assets classified as available-for-sale.

Derecognition of financial assets

The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(b) Financial liabilities

Financial liabilities are classified as due to banks and customer accounts. Financial liabilities are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank’s obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

(c) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

(d) IFRS 7 fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

1. quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
2. inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
3. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

The bank has no financial assets or liabilities measured at fair value, accordingly they are not presented under the IFRS 7 fair value measurement hierarchy.

(e) Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or Bank of financial assets that can be reliably estimated. The primary factors that the Bank considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- Any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The borrower experiences a significant financial difficulty as evidenced by borrower’s financial
- information that the organisation obtains;
- The borrower considers bankruptcy or a financial reorganisation;
- There is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- The value of collateral significantly decreases as a result of deteriorating market conditions.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually. For the purposes of a collective evaluation of impairment, financial assets are Banked on the basis of similar credit risk characteristics.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future cash flows in a Bank of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience and the success of recovery of overdue amounts. Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to reduce the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

It should be noted that the evaluation of losses includes a subjective factor. None of the Bank's financial assets carried at amortised cost are impaired, therefore the bank has not recognised any impairment loss.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia ("NBG"), excluding mandatory reserves, and all interbank placements and interbank receivables with **original maturities of less than three months**. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

Mandatory balances with the NBG

Mandatory balances with the National Bank of Georgia (NBG) are carried at amortised cost and represent mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents.

Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions.

Amounts due from banks

Amounts due from banks are recorded when the Bank advances money to counterparty banks with **original maturity of more than three months** and with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from banks are carried at amortised cost.

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation (amortisation) and recognized impairment loss, if any.

Depreciation (amortisation) is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. Depreciation (amortisation) is calculated on a straight line basis at the following useful lives:

Group	Useful life (years)
Leasehold improvements	According to lease contract
Computers and office equipment	5
Furniture and fixtures	5
Intangible asset	Indefinite

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

The intangible assets with definite useful lives are amortised on a straight line basis over expected useful lives, however if the intangible asset has indefinite useful live it is not amortised. The carrying amount of intangible assets with indefinite useful lives are tested on impairment by comparing with recoverable amount at each year-end and whenever there is an indication that asset may be impaired. If the asset is impaired any excess of the carrying amount over the recoverable amount is recognised as an impairment loss.

Due to banks

Amounts due to banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Georgia and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

income taxes levied by the same taxation authority on either the taxable entity where there is an intention to settle the balances on a net basis.

Provisions, contingent liabilities and contingent assets

Contingent liabilities are not reflected in the financial statements, except for the cases when the outflow of economic benefits is likely to origin and the amount of such liabilities can be reliably measured. The information on contingent liabilities is disclosed in the Notes to the financial statements with the exception of cases, when the outflow of economic benefits is unlikely.

Contingent assets are not reflected in the financial statements, but the information on them is disclosed when inflow of economic benefits is possible. If economic benefits are sure to occur, an asset and related income are recognized in the financial statements for the period, when the evaluation change occurred.

A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation. A legal obligation is an obligation that derives from:

- A contract (through its explicit or implicit terms);
- Legislation; or
- Other operation of law.

A constructive obligation is an obligation that derives from an entity's actions where:

- By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Income and expense recognition

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Salaries and other employee benefits

Wages, salaries, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

Events after the reprorting period

Events after the reporting period and events before the date of financial statements authorization for issue that provide additional information about the Bank's financial statements are reported in the financial statements. Post-balance sheet events that do not affect the financial position of the Bank at the balance sheet date are disclosed in the notes to the financial statements when material.

Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). Financial statements are presented in Georgian lari (GEL), which is the Bank's functional and presentation currency.

Monetary assets and liabilities are translated into each Bank's functional currency at the official exchange rate of the National Bank of Georgia.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each Bank's functional currency at year-end official exchange rates are recognised in the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of the Bank are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- components of equity are translated at the historic rate; and
- all resulting exchange differences are recognised in other comprehensive income.

Table below presents the closing exchange rates for the end of the period, beginning of the period and the average exchange rates for the period presented:

	Official rate of the National Bank of Georgia		
	USD	***EUR***	***TRY***
Exchange rate as at 31.12.2012	1.6567	2.1825	0.9247
Exchange rate as at 13.07.2012	1.6559	2.0182	0.9101
Average exchange rate for the period presented	1.6566	2.1137	0.9211

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013, and which the Bank has not early adopted. This listing of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date, therefore intends to adopt those standards when they become effective:

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Bank does not expect the amendment to have any material effect on its financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two Banks, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to ‘statement of profit or loss and other comprehensive income’. The Bank expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows:

(i) service cost and net interest in profit or loss; and
(ii) remeasurements in other comprehensive income.

The Bank does not expect the amendment to have any material effect on its financial statements.

Amendments to IFRS 7, "Disclosures - Offsetting Financial Assets and Financial Liabilities" - (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

Amendments to IAS 32, "Offsetting Financial Assets and Financial Liabilities" (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.

Other revised standards and interpretations

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Bank does not expect the amendment to have any effect on its financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Bank does not expect the amendment to have any effect on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in Bank activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Bank does not expect the amendment to have any effect on its financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Financial statements. The Bank does not expect the amendment to have any effect on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation will not have an impact on the Bank's financial statements.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property, equipment and intangible assets

Property, equipment and intangible assets are depreciated or amortised over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, there are determined using variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but if it is not feasible, a degree of judgment is required in establishing a fair value.

Initial recognition of related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. In management judgment, at December 31, 2012 there were no transactions with related parties at other then market conditions. Terms and conditions of related party balances are disclosed in Note 23.

Income taxes

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Bank recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Bank's belief that its tax return positions are supportable, the Bank believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result Bank minimizes the risks related to this fact. The Bank believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Legal proceedings

The Bank only recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realization of any contingent liabilities not currently recognized or disclosed in the financial statements could have a material effect on the Bank's financial position. Application of these accounting principles to legal cases requires the Bank's management to make determinations about various factual and legal matters beyond its control. The Bank reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Bank's management as to how it will respond to the litigation, claim or assessment.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2012 can be presented as follows:

	31 December 2012
Cash on hand	384,751
Cash balances with the NBG (other than mandatory balances)	38,303
Correspondent accounts and overnight placements with other banks	3,878,133
Placements with and receivables from other banks with original maturities of less than three months	9,609,542
Total cash and cash equivalents	**13,910,729**

Cash and cash equivalents distribution by currency as at 31 December 2012 can be presented as follows:

	In GEL	In USD	In EUR	In TRY	Total
Cash on hand	119,871	141,406	40,005	83,469	**384,751**
Cash balances with the NBG (other than mandatory balances)	28,899	9,079	325	-	**38,303**
Correspondent accounts and overnight placements with other banks	3,720,778	-	109,125	48,230	**3,878,133**
Placements with and receivables from banks with original maturities of less than three months	9,188,387	421,155	-	-	**9,609,542**
Total cash and cash equivalents	**13,057,935**	**571,640**	**149,455**	**131,699**	**13,910,729**

5. CASH AND CASH EQUIVALENTS (continued)

Credit rating of correspondent accounts and overnight placements with other banks as at 31 December 2012 can be presented as follows:

	In GEL	In EUR	In TRY	Total
BBB	-	-	48,230	**48,230**
BB-	3,720,778	109,125	-	**3,829,903**
Total Correspondent accounts and overnight placements with other banks	**3,720,778**	**109,125**	**48,230**	**3,878,133**

Credit ratings are **BB-** for all (GEL 9,609,542) placements with and receivables from banks with original maturities of less than three months as at 31 December 2012. The bank earned interest income up to 5.5% per annum on these placements.

Ratings presented are provided by Standard & Poor's and Fitch Ratings international agencies. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used.

None of placements with banks are impaired or past due.

As at 31 December 2012 the Bank has two placements whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is GEL 12,909,165.

Information on related party balances is disclosed in Note 23.

6. MANDATORY BALANCES WITH THE NBG

Mandatory balances with the NBG as at December 31, 2012 amounted GEL 60,746 and GEL 310 in USD and EUR respectively.

These balances represent amounts deposited with the National Bank of Georgia (NBG). Banks operating in Georgia are required to maintain an interest-earning (up to 5%) obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the Bank.

The Bank has other placements with the NBG, that are not restricted for usage and are therefore included in cash and cash equivalents as disclosed in Note 5 above.

7. OTHER RECEIVABLES

Other receivables as at December 31, 2012 are comprised of the receivables amounting GEL 15,400. The GEL banknotes of different amount was given to an individual to be tested for ATM usage. The banknotes were not returned as at 31 December 2012 and has been recognised as other receivables in the statement of financial position.

8. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets as at December 31, 2012 can be presented as follows:

Historical cost	Leasehold improvements	Computers and office equipment	Furniture and fixtures	Intangible asset *	Total
Historical cost 13.07.2012	**-**	**-**	**-**	**-**	**-**
Additions during the period	346,082	154,125	98,346	12,738	**611,291**
Disposals during the period	-	-	-	-	**-**
Historical cost 31.12.2012	**346,082**	**154,125**	**98,346**	**12,738**	**611,291**
Accumulated depreciation and amortisation					
Balance for 13.07.2012	**-**	**-**	**-**	**-**	**-**
Depreciation for the period	(22,719)	(12,340)	(7,560)	-	**(42,619)**
Accumulated depreciation of disposals for the period	-	-	-	-	**-**
Balance for 31.12.2012	**(22,719)**	**(12,340)**	**(7,560)**	**-**	**(42,619)**
Net book value					
Net book value 13.07.2012	**-**	**-**	**-**	**-**	**-**
Net book value 31.12. 2012	**323,363**	**141,785**	**90,786**	**12,738**	**568,672**

* Intangible asset is compromised of a license for SWIFT transactions (Alliance Access Destination licence) with the Network destination: ISBKGE22. The license has indefinite useful life which is not amortised in accordance with IAS 38. The Bank tests the license for impairment in accordance with IAS 36 by comparing its recoverable amount with its carrying amount for each year-end and whenever there is an indication that the license may be impaired.

The bank is currently using the banking software which is controlled by JSC IŞ Bank Turkey (shareholder) and therefore is not recognised as an asset in the Statement of Financial Position. Support and maintanence expenses related to this software is recognised in the Bank's Statement of Comprehensive Income.

9. TAXATION

The differences between IFRS and Georgia statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. Temporary differences recorded at the rate of 15% as at December 31, 2012 can be presented as follows:

Temporary differences at a rate of 15%	Asset	Liability	Net
Property, equipment and intangible assets	-	(9,605)	**(9,605)**
Tax losses carried forward	67,342	-	**67,342**
Deferred tax asset/(liability)	67,342	(9,605)	**57,737**
Set off	(9,605)	9,605	
Net deferred income tax assets	57,737	-	**57,737**

9. TAXATION (continued)

The Bank recognises tax losses carried forward as deferred tax asset because it is probable that taxable profit will be available against which the unused tax losses can be utilized.

The tax effect of the movements in temporary differences are detailed below.

Temporary differences due to:	Balance at 13 July 2012	(Charged) / credited to the Income Statement	(Charged) / credited directly to equity	Balance at 31 December 2012
Property, equipment and intangible assets	-	(9,605)	-	**(9,605)**
Tax losses carried forward	-	67,342	-	**67,342**
Total deferred income tax assets	-	57,737	-	**57,737**

Income tax benefit comprises the following:

	2012
Current income tax	-
Effect of temporary differences	57,737
Income tax benefit	**57,737**

Reconciliation of the income tax benefit based on statutory rate with actual is as follows:

	2012
Loss before income tax	(448,696)
Applicable tax rate	15%
Theoretical income tax benefit	67,667
Effect of permanent differences	(9,567)
Income tax benefit	**57,737**

10. DUE TO BANKS

Amounts due to banks as at December 31, 2012 can be presented as follows:

	31 December 2012
Correspondent accounts and overnight placements of other banks	357,746
Loans from banks	694,382
Total due to banks	**1,052,128**

All received loans from banks are short-term. The bank paid interest of 7.5% per annum on these loans during the period ended December 31, 2012.

Distribution of amounts due to banks by currency as at 31 December 2012 can be presented as follows:

10. DUE TO BANKS (continued)

	In USD	In EUR	In TRY	Total
Correspondent accounts and overnight placements of other banks	218,544	139,202	-	**357,746**
Loans from banks	-	-	694,382	**694,382**
Total due to banks	**218,544**	**139,202**	**694,382**	**1,052,128**

Loans from banks as at December 31, 2012 were composed of:

Bank name	Grant date	Contractual maturity	Facility amount in original currency	Balance as at 31 December 2012*
JSC IŞ Bank Turkey	26-Dec-12	21-Jan-13	TRY 700,000	648,147
JSC IŞ Bank Turkey	27-Dec-12	21-Jan-13	TRY 50,000	46,235
Total loans from banks			**TRY 750,000**	**694,382**

* Outstanding balance in GEL includes accrued interest payable.

Information on related party balances is disclosed in Note 23.

11. CUSTOMER ACCOUNTS

Customer accounts are solely composed of current accounts. No interest is accrued on customers' current accounts. As at December 31, 2012 Customer accounts can be presented as follows:

	31 December 2012
Private Companies	469,017
Individuals	491,492
Total customer accounts	**960,509**

Distribution of customer accounts by currency as at 31 December 2012 can be presented as follows:

	In GEL	In USD	In TRY	In EUR	Total
Private Companies	193,812	274,373	832	-	469,017
Individuals	126,048	364,209	995	240	491,492
Total customer accounts	**319,860**	**638,582**	**1,827**	**240**	**960,509**

At 31 December 2012 the Bank had 3 customer accounts with balances over GEL 100,000. The total balance of these accounts amounted GEL 693,948 which represented 72% of total customer accounts.

12. OTHER LIABILITIES

Other liabilities as at December 31, 2012 can be presented as follows:

	31 December 2012
Taxes other than income tax *	143,145
Other payables	20,728
Total other liabilities	**163,873**

* Taxes other than income tax includes non-deductable reverse-charged VAT (GEL 88,790) and withholding tax (GEL 40,523) payable for the services provided by non-resident entities, as well as personal income (GEL 11,052) and property (GEL 2,780) taxes payable as at December 31, 2012.

13. STATUTORY CAPITAL

Statutory capital as at December 31, 2012 can be presented as follows:

	2012
On issue at 13 July	-
Contributed during the period	12,828,043
On issue at 31 December	**12,828,043**

There is a minimal capital contribution requirement of GEL 12,000,000 for obtaining a banking license in Georgia. The final capital contribution of GEL 828,000 was made in December, 2012 by the Bank's shareholder.

14. NET INTEREST INCOME

Net interest income for the period from inception till 31 December 2012 can be presented as follows:

Interest income on financial assets recorded at amortized cost comprises:	**2012**
Interest income on fixed term deposits	226,635
Interest income on correspondent accounts and overnight placements with other banks	4,720
Total interest income	**231,355**
Interest expense on financial liabilities recorded at amortized cost comprises:	
Interest expense on loans from banks	(1,194)
Total interest expense	**(1,194)**
Net interest income	**230,161**

Interest received and paid by the Bank during the period from inception till 31 December 2012 amounted to GEL 231,355 and GEL 337 respectively.

15. NET FEE AND COMMISSION INCOME

Net fee and commission income for the period from inception till 31 December 2012 can be presented as follows:

	2012
Income from money transfers	8,297
Income from cash operations	7,510
Other fee and comission income	1,758
Total fee and comission income	**17,565**
Cash operation expenses	(2,181)
Other fee and comission expenses	(1,331)
Total fee and comission expense	**(3,512)**
Net fee and comission income	**14,053**

16. NET LOSS ON FOREIGN EXCHANGE OPERATIONS

Net loss on foreign exchange operations for the period from inception till 31 December 2012 can be presented as follows:

	2012
Dealing, net	10,077
Translation differences, net	(12,373)
Net loss on foreign exchange operations	**(2,296)**

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the period from inception till 31 December 2012 can be presented as follows:

	2012
Professional services	99,690
Office rent	71,968
Advertising	36,195
Business trips	17,817
Communication	15,628
Transportation	12,459
Utilities	10,962
Other expenses	17,537
Total general and administrative expenses	**282,256**

18. SALARIES AND OTHER EMPLOYEE BENEFITS

Salaries and other employer benefits for the period from inception till 31 December 2012 can be presented as follows:

	2012
Salaries	179,830
Other employee benefits	53,816
Total salaries and other employee benefits	**233,646**

Refer to Note 23 for the disclosures regarding key management compensations.

19. TAXES OTHER THAN INCOME TAX

Taxes other than income tax for the period from inception till 31 December 2012 can be presented as follows:

	2012
Reverse-charged VAT (non-deductable) for services from non-resident entities	88,790
Withholding tax for services from non-resident entities	40,523
Property tax expense	2,780
Total taxes other than income tax	**132,093**

20. COMMITMENTS AND CONTINGENCIES

Litigation

In the ordinary course of business, Banks are subject to legal actions and complaints. However from the period from inception till 31 December 2012 the bank has not been involved in any lawsuit.

The management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Financial commitments and contingencies

Non-cancelable operating lease commitments as at 31 December 2012 are payable as follows:

	31 December 2012
Less than one year	125,578
Between one and five years	302,348
Total operating lease commitments	**427,926**

BATUMI BRANCH OF JSC IŞ BANK TURKEY leases a offices under operating lease. The leases typically run for a period of 5 years, with an option to renew the lease after that date.

During the year period ended 31 December 2012 GEL 71,968 was recognised as an expense in the income statement in respect of operating leases.

21. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

As a financial institution, the bank is exposed to risks that arise from its use of financial instruments. This note describes the Bank's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

General objectives, policies and processes

The board of directors has overall responsibility for the determination of the Bank’s risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the organizations finance function.

The overall objective of the Board is to set polices that seek to reduce risks as far as possible without unduly affecting the Bank's competitiveness and flexibility. Further details regarding these policies are set out below.

Through its operations, the Bank is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk:
  - Currency risk
  - Interest rate risk

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the lending and other transactions with counterparties giving rise to financial assets.

As the Bank had no loans issued for 31 December 2012 and financial assets are principally comrised of cash and cash equivalents, the credit risk is not significant.

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date was:

	Note	31 December 2012
Cash and cash equivalents (Excluding cash on hand)	5	13,525,978
Mandatory balances with the NBG	6	61,056
Other receivables	7	15,400
Total credit risk exposure		**13,602,434**

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process.

21. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

The Bank calculates liquidity ratio on a daily basis in accordance with the requirement of NBG. The limit is defined by NBG for average liquidity ratio calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions with residual maturity up to 6 months and off-balance sheet liabilities up to 6 months; The ratio was 693.79% as at 31 December 2012 well above the prudential limit set by NBG.

An analysis of the liquidity risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Bank.

Liquidity of Financial assets and liabilities as at 31 December 2012 can be presented as follows:

Financial assets	Note	Up to 3 months	Over 3 months	Total
Cash and cash equivalents	5	13,910,729	-	**13,910,729**
Mandatory balances with the NBG	6	61,056	-	**61,056**
Other receivables	7	15,400	-	**15,400**
Total financial assets at 31 December 2012		**13,987,185**	**-**	**13,987,185**
Financial liabilities				
Due to banks	10	1,052,128	-	**1,052,128**
Customer accounts	11	960,509	-	**960,509**
Other liabilities	12	20,728	-	**20,728**
Total financial liabilities at 31 December 2012		**2,033,365**	**-**	**2,033,365**
Financial commitments and contingencies	20	34,791	393,135	
Net liquidity gap at 31 December 2012		**11,919,029**	**(393,135)**	
Cumulative liquidity gap at 31 December 2012		**11,919,029**	**11,525,894**	

Management believes that the Bank has sufficient liquidity to meet its recognised and off-balance sheet obligations.

Market Risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors. Market risk arises from the Bank's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk) and interest rates (interest rate risk).

- **Currency risk**

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

The Bank's exposure to foreign currency exchange rate risk as at 31 December, 2012 is presented in the table below:

21. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

Financial assets	GEL	USD 1 = **1.6567** GEL	EUR 1 = **2.1825** GEL	TRY 1 = **0.9247** GEL	31 December 2012
Cash and cash equivalents	13,057,935	571,640	149,455	131,699	**13,910,729**
Mandatory balances with the NBG	-	60,746	310	-	**61,056**
Other receivables	15,400	-	-	-	**15,400**
Total financial assets	**13,073,335**	**632,386**	**149,765**	**131,699**	**13,987,185**
Financial liabilities					
Due to banks	-	218,544	139,202	694,382	**1,052,128**
Customer accounts	319,860	638,582	240	1,827	**960,509**
Other liabilities	19,381	-	1,347	-	**20,728**
Total financial liabilities	**339,241**	**857,126**	**140,789**	**696,209**	**2,033,365**
Open balance sheet position	**12,734,094**	**(224,740)**	**8,976**	**(564,510)**	**11,953,820**

The following table details the Bank's sensitivity to a 10% increase and decrease in the foreign currency exchange rates against GEL and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. Impact on the statement of comprehensive income and equity based on financial instrument values as at 31 December 2012 can be presented as follows:

	USD impact (GEL / USD)		**EUR impact (GEL / EUR)**		**TRY impact (GEL / TRY)**	
	+ 10%	**- 10%**	**+ 10%**	**- 10%**	**+ 10%**	**- 10%**
Impact as at 31 December 2012	(22,474)	22,474	898	(898)	(56,451)	56,451

The analysis assumes that all other variables, in particular interest rates, remain constant.

As the foreing currency financial assets and liabilities are short-term (up to three months) originated in December, 2012 and provided that majority of the Banks finanacial assets are denominated in functinal currency (GEL), management believes that reasonable increase or decrease in market interest rates do not reveal significant potential effect of the Bank's statement of comrehensive income or equity as at 31 December 2012.

- **Interest Rate Risk**

Interest rate risk arises from potential changes in market interest rates that can adversely affect the fair values of the financial assets and liabilities of the Bank. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's interest bearing financial assets and interest bearing financial liabilities at carrying amounts which are reasonable approximation to their fair values.

	31 December 2012
Total interest bearing financial assets	9,670,598
Total interest bearing financial liabilities	(694,382)
Net interest sensitivity gap	**8,976,216**

21. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)

The Bank performs analysis of interest rate risk sensitivity.

The following table demonstrates the sensitivity to a reasonable theoretical change in market interest rates, with all other variables held constant, of the Bank's statement of comprehensive income and equity for the period ended 31 December 2012.

	GEL impact		USD impact		TRY impact	
	+1.44%	**-1.44%**	**+1.10%**	**-1.10%**	**+0.31%**	**-0.31%**
Sensitivity of interest income	61,581	(61,581)	151	(151)	-	-
Sensitivity of interest expense	-	-	-	-	(148)	148
Net interest income sensitivity	61,581	(61,581)	151	(151)	(148)	148

Bank's interest bearing financial assets and liabilities are at fixed interest rates and are short-term (up to three months), therefore management believes that reasonable increase or decrease in market interest rates do not reveal significant potential effect of the Bank's equity.

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

22. MANAGEMENT OF CAPITAL

The Bank's objectives when maintaining capital are:

- To safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders; and
- To comply with the capital requirements set by NBG
- To provide an adequate return to shareholders.

The Bank sets the amount of capital it requires in proportion to risk. The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

Compliance with capital adequacy ratios set by NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's top management.

Under the current capital requirements set by NBG, banks have to maintain a ratio of regulatory capital to risk weighted assets above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared in the forms prescribed by NBG and comprises:

	Note	**31 December 2012**
Statutory capital	13	12,828,043
Less: accumulated deficit		(390,959)
Less: intangible assets	8	(12,738)
Total regulatory capital		**12,424,346**

The Bank has complied with all imposed capital requirements for the period ended 31 December 2012.

23. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, could be one or more of the following:

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;
b) Members of key management personnel of the Bank or its parent;
c) Close members of the family of any individuals referred to in (a) or (b);
d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Bank and other related parties are disclosed below:

		As and for the period from inception til 31 December 2012		
Financial statement caption	**Note**	**Shareholder**	**Key management personnel**	**Total category as per the financial statement caption**
Cash and cash equivalents	5	**48,230**	**-**	13,910,729
Due to banks	10	**(1,052,128)**	**-**	(1,052,128)
Customer accounts	11	**-**	**(13,352)**	(960,509)
Interest expense	14	**(1,194)**	**-**	(1,194)
Salaries and other employee benefits	18	**-**	**(84,836)**	(233,646)

24. EVENTS AFTER THE REPORTING PERIOD

Loan disbursements

The Bank started loan disbursement in 2013 which will become one of the Bank’s principal activities. The first loan was disbursed at an amount of GEL 1,739,325 (USD 1,050,000).

Appointment of new Board of Directors

The Bank’s new Board of Directors have been appointed in 2013.