PRIVATBANK GROUP (GEORGIA)

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2012

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Independent Auditor's Report

To the Shareholders and Board of Directors of PrivatBank Group

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

26 April 2013
Tbilisi, Georgia

In thousands of Georgian Lari	Note	31 December 2012	31 December 2011
Assets			
Cash and cash equivalents	7	116,568	61,093
Mandatory cash balances with NBG		19,090	8,995
Due from other banks	8	756	16,744
Loans and advances to customers	9	205,958	241,575
Investment in joint venture	10	3,075	3,883
Deferred income tax asset		365	324
Premises, equipment and intangible assets	11	20,749	15,069
Other financial and insurance assets	12	11,426	11,810
Other assets	13	3,017	2,571
Total assets		**381,004**	**362,064**
Liabilities			
Due to other banks	14	124,896	159,571
Customer accounts	15	174,123	99,926
Current income tax liability		-	126
Provisions for liabilities and charges	16	151	144
Other financial liabilities	17	4,986	3,203
Other liabilities	18	8,358	5,223
Deferred income tax liability	25	12	1,545
Subordinated debt	19	23,866	24,375
Total liabilities		**336,392**	**294,113**
EQUITY			
Share capital	20	92,620	92,620
Share premium		4,308	4,308
Additional paid-in capital	19	11,449	10,016
Revaluation reserve for premises		136	136
Accumulated deficit		(63,901)	(39,129)
Total equity		**44,612**	**67,951**
Total liabilities and equity		**381,004**	**362,064**

Approved for issue and signed on behalf of the Board of Directors on 26 April 2013.

Bogdan Lesyuk
Chief Executive Officer

Vera Dzneladze
Chief Accountant

In thousands of Georgian Lari	Note	2012	2011
Interest income	21	86,414	77,062
Interest expense	21	(35,986)	(26,921)
Net interest income		**50,428**	**50,141**
Provision for loan impairment	9	(39,957)	(15,155)
Net interest income after provision for loan impairment		**10,471**	**34,986**
Fee and commission income	22	5,413	3,773
Fee and commission expense	22	(1,241)	(1,250)
Gains less losses from trading in foreign currencies		1,828	3,117
Foreign exchange translation gains less losses/(losses less gains)		64	(171)
Losses less gains from financial derivatives		(3,840)	(1,241)
Impairment of other assets	12, 13	(1,855)	(2,655)
Other operating income	23	5,639	7,644
Administrative and other operating expenses	24	(42,212)	(44,734)
Share of result of joint venture	10	(807)	(1,004)
Loss before tax		**(26,540)**	**(1,535)**
Income tax credit	25	1,768	1,119
Other comprehensive income		-	-
Total comprehensive loss for the year		**(24,772)**	**(416)**

The notes set out on pages 5 to 52 form an integral part of these consolidated financial statements.

PRIVATBANK GROUP (GEORGIA)
Consolidated Statement of Changes in Equity

In thousands of Georgian Lari	Note	Share capital	Share premium	Additional paid-in capital	Revaluation reserve for premises	Accumulated deficit	Total
Balance at 31 December 2010		**76,000**	**4,308**	**10,016**	**2,052**	**(40,629)**	**51,747**
Loss for the year		-	-	-	-	(416)	(416)
Total comprehensive loss		-	-	-	-	(416)	**(416)**
Transfer of revaluation surplus on building to retained earnings		-	-	-	(1,916)	1,916	-
Share issue	20	16,620	-	-	-	-	16,620
Balance at 31 December 2011		**92,620**	**4,308**	**10,016**	**136**	**(39,129)**	**67,951**
Loss for the year		-	-	-	-	(24,772)	(24,772)
Total comprehensive loss		-	-	-	-	(24,772)	**(24,772)**
Addition paid-in capital	19	-	-	1,686	-	-	1,686
Income tax recorded in equity	25	-	-	(253)	-	-	(253)
Balance at 31 December 2012		**92,620**	**4,308**	**11,449**	**136**	**(63,901)**	**44,612**

The notes set out on pages 5 to 52 form an integral part of these consolidated financial statements.

In thousands of Georgian Lari	Note	2012	2011
Cash flows from operating activities			
Interest received		87,473	73,165
Interest paid		(34,091)	(25,839)
Losses from financial derivatives		(3,840)	(1,243)
Fees and commissions received		5,413	3,773
Fees and commissions paid		(1,241)	(2,544)
Income received from trading in foreign currencies		1,828	3,117
Other operating income received		6,101	8,511
Staff costs paid		(18,330)	(21,548)
Administrative and other operating expenses paid		(21,224)	(20,065)
Income tax paid		(185)	(182)
Cash flows from operating activities before changes in operating assets and liabilities		**21,904**	**17,145**
Net increase in mandatory balances with NBG		(10,095)	(4,176)
Net decrease in due from other banks		15,761	946
Net increase in loans and advances to customers		(5,553)	(132,783)
Net decrease/(increase) in other financial assets		398	(1,933)
Net (increase)/decrease in other assets		(435)	250
Net (decrease)/increase in due to other banks		(34,327)	119,765
Net increase/(decrease) in customer accounts		73,796	(23,609)
Net increase/(decrease) in other financial liabilities		2,341	(527)
Net increase/(decrease) in other liabilities		1,565	(548)
Net cash from/(used in) operating activities		**43,451**	**(42,615)**
Cash flows from investing activities			
Investment in joint venture	10	-	(893)
Acquisition of premises and equipment and intangible assets		(9,499)	(3,127)
Net cash used in investing activities		**(9,499)**	**(4,020)**
Cash flows from financing activities			
Issue of ordinary shares		-	16,620
Net cash from financing activities		**-**	**16,620**
Effect of exchange rate changes on cash and cash equivalents		**(380)**	**285**
Net increase/(decrease) in cash and cash equivalents		**55,475**	**(12,585)**
Cash and cash equivalents at the beginning of the year		61,093	73,678
Cash and cash equivalents at the end of the year	7	**116,568**	**61,093**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 for JSC PrivatBank (the "Bank") and its subsidiaries (together referred to as the "Group" or "PrivatBank Group (Georgia)"). The Bank holds 100% ownership in its subsidiaries being "TAOGUARD" LTD, "Insurance Company TAO" LTD and "Praim Leasing" LTD(2011: 100% ownership in its subsidiaries being "TAOGUARD" LTD and "Insurance Company TAO" LTD), which are domiciled in Georgia. The Bank holds 50% ownership in its joint venture being "Wetzel Plaza" LTD (2011: 50%). "Insurance Company TAO" LTD provides insurance and reinsurance services. "TAOGUARD" LTD provides private security services. "Wetzel Plaza" LTD rents out owned premises on operating lease basis.

In 1992 Bank Kavkasioni obtained a banking license from the National Bank of Georgia; In January 2005 the Bank's name changed to First Commercial Bank; In May 2006 - the Bank's name changed to TaoBank;On 25 September 2007 the Bank's name changed to TaoPrivatBank and on 17 December 2010 the Bank's name changed to PrivatBank. As of 31 December 2012 the Bank's immediate shareholders were PJSC Commercial Bank PrivatBank (the "Parent Bank") owning 62.62% (2011: 62.62%) of the Bank's shares, Unimain Holdings Limited owning 32.38% (2011: 32.38%) and the management of the Bank owning 5% (2011: 5%). The Parent Bank domiciled in Ukraine is the immediate parent company. As of 31 December 2012 and 2011 the ultimate major shareholders of the Parent Bank were two Ukrainian citizens Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who as of 31 December 2012 owned directly and indirectly respectively 46.27% (2011: 46.25%) and 46.27% (2011: 46.25%) of the outstanding shares and neither of which individually controlled the Parent Bank. The major shareholders of the Parent Bank do not have a contractual agreement on joint control of the Parent Bank.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Georgia. The Bank has operated under a full banking licence issued by the National Bank of Georgia ("NBG") in 1992. As of 31 December 2012 the Bank has 106 service centres within Georgia (2011: 100 service centres).

Registered address and place of business. The registered address and place of business of the Bank's head office is 114 Tsereteli Avenue, Tbilisi 0119, Georgia

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

2 Operating Environment of the Group

The Group's principal business activities are within Georgia. Georgia continues to display certain characteristics of an emerging market. Tax, currency and customs legislation of Georgia is subject to varying interpretations and contributes to the challenges faced by companies operating in Georgia. In addition, the international sovereign debt crisis and stock market volatility may affect the ability of the Group to achieve the performance targets.

Management is unable to predict all developments which could have an impact on banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group.

The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intergroup transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

3 Summary of Significant Accounting Policies (Continued)

Joint Ventures. Joint ventures are entities over which the Group has a contractual agreement whereby two or more parties undertake an economic activity that is a subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). Investments in joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of joint ventures includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from joint ventures reduce the carrying value of the investment in joint ventures. Other post-acquisition changes in Group's share of net assets of an joint venture are recognised as follows: (i) the Group's share of profits or losses of joint ventures is recorded in the consolidated profit or loss for the year as share of result of joint ventures, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of joint ventures are recognised in profit or loss within the share of result of joint ventures. However, when the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and the current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. 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.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

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.

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.

3 Summary of Significant Accounting Policies (Continued)

Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group 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.

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 balances with NBG (other than mandatory reserve deposits) and all interbank placements 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. Cash and cash equivalents are carried at amortised cost.

Mandatory reserve deposits with the NBG. Mandatory reserve deposits with the NBG are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year 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 group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether 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 the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an 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; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past 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. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed.

This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

3 Summary of Significant Accounting Policies (Continued)

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the profit or loss for the year.

Insurance contracts – classification. The Group's subsidiary issues contracts that transfer insurance risks. Insurance contracts are those that transfer significant insurance risk. As a general guideline, the subsidiary defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Insurance receivables. Insurance receivables are initially recognized at nominal value and represent the total amount of insurance premiums to be received from the policyholder over the term of the policy coverage. Insurance receivables are treated in accordance with IFRS 4, "Insurance contracts".

A provision for impairment of insurance receivables is established if there is objective evidence that the subsidiary will not be able to collect the premiums due according to the original terms of insurance policy. The amount of the provision is the difference between the carrying amount and estimated recoverable amount.

Premiums. Upon inception of the contract, the total premiums to be received over the term of the policy coverage are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage. The reserve for unearned premiums represents the proportion of premiums written in the year that relate to unexpired terms of policies in force at the reporting date, calculated on a time apportionment basis. The reserve for unearned premiums is included in other liabilities in these consolidated financial statements.

Insurance losses. Losses including loss adjustment expenses are charged to the statement of comprehensive income as incurred. Reserves for losses represent the accumulation of estimates for incurred losses and include two types of reserves: reserve for reported but not settled losses ("RBNS") and reserve for incurred but not reported losses ("IBNR"). RBNS reserve is calculated for each unsettled claim. The estimation is made on the basis of information received by the subsidiary during investigation of insurance cases to be settled after the reporting date. If the amount of loss is not determined, the maximum possible amount of losses not exceeding the insurance limit, stated in the insurance policy, is accepted as RBNS. IBNR is established based on actuarial methods used to determine loss development patterns based on historic information, implied expected ultimate loss ratios and implied reported claims development factors. IBNR is calculated by the subsidiary for each line of business; the calculation includes assumptions based on prior years' claims and claims handling experience.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the statement of comprehensive income as they arise. Loss provision reserve is estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment. Loss reserve is included in Other Financial Liabilities in these consolidated financial statements.

Liability adequacy test. At each end of reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Long-term insurance contracts with fixed terms are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

3 Summary of Significant Accounting Policies (Continued)

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

In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period.

Premises and equipment. Premises, leasehold improvements and equipment, are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. At the date of revaluation accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Management has updated the carrying value of premises carried on a revalued basis as of the reporting date using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

	Useful lives in years
Premises	50
Office and computer equipment	2-15
Furniture, fixtures and other equipment	4-10
Motor vehicles	10
Leasehold improvements	Over the term of underlying lease or 7 years

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

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of four to ten years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, the liability is removed from the consolidated 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.

Subordinated debt. Subordinated debt includes long-term non-derivative liabilities are carried at amortised cost. The repayment of subordinated debt ranks after all other creditors in case of liquidation.

3 Summary of Significant Accounting Policies (Continued)

Derecognition of financial liabilities. The Group derecognises financial liabilities when it is extinguished, ie when the obligation specified in the contract is discharged or cancelled or expires. An exchange between the Group and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss. Terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Derivative financial instruments. Derivative financial instruments, including currency swap carried at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

3 Summary of Significant Accounting Policies (Continued)

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

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

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

Additional capital. Additional capital is recorded when a capital contribution is made by the Bank's shareholders other than the share capital issue. Additional capital is reclassified to retained earnings on expiry of contracts that gave rise to additional capital.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Georgian legislation identifies the basis of distribution as the retained earnings.

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

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

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

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

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the Georgian Lari.

3 Summary of Significant Accounting Policies (Continued)

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

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2012 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.6567 (2011: USD 1 = GEL 1.6703); EUR 1 = GEL 2.1825 (2011: EUR 1= GEL 2.1614).

Revenue recognition on security services. Revenue from rendering security services is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided on a monthly basis.

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

Staff costs and related contributions. Wages, salaries, contributions, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Changes in presentation. Where necessary corresponding figures as of 31 December 2011 have been adjusted to conform to the current year presentation.

4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies

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

Going concern. The Group has a loss for the year ended 31 December 2012 of GEL 26,540 thousand (2011: loss of GEL 416 thousand) and accumulated loss as at 31 December 2012 was GEL 63,901 thousand. Management prepared these consolidated financial statements on going concern basis. In making this judgement management primarily considered ability of the Parent Bank to continue providing financial support to the Group, including assessment of the Parent Bank's financial position.

4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies (Continued)

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 1,866 thousand (2011: GEL 325 thousand).

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 32.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2012:

"Disclosures—Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The standard requires these new disclosures to be presented in a separate note. The amendments did not have any impact on these consolidated financial statements.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have any impact on these financial statements.

6 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 or later, and which the Group has not early adopted.

6 New Accounting Pronouncements (Continued)

IFRS 9 "Financial Instruments Part 1: Classification and Measurement". IFRS 9, issued in November 2010, 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 Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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 Group is currently assessing the impact of the amended standard on its consolidated 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-Monetary Contributions by Venturers". 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 Group is currently assessing the impact of the new standard on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 12 "Disclosure of Interests 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 areas, including significant judgements 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 group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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 Group is currently assessing the impact of the standard on its consolidated 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 "Consolidated Financial Statements". The Group does not expect the amendment to have any effect on its consolidated 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. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in 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 groups, 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 Group expects the amended standard to change presentation of its consolidated 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 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 Group is currently assessing the impact of the amended standard on its consolidated financial statements.

"Disclosures - Offsetting Financial Assets and Financial Liabilities" - Amendments to IFRS 7 (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 consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (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. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

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 consolidated financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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. The Group is currently assessing the impact of the amendments on its consolidated 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. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

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 financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Other revised standards and interpretations: 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 Group's consolidated financial statements.

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

7 Cash and Cash Equivalents

In thousands of Georgian Lari	31 December 2012	31 December 2011
Cash on hand	29,808	15,425
Cash balances with the NBG (other than mandatory reserve deposits)	29,715	42,340
Correspondent accounts and overnight placements with other banks	57,045	3,328
Total cash and cash equivalents	**116,568**	**61,093**

Interest rate analysis of cash and cash equivalents is disclosed in Note 26. Information on related party balances is disclosed in Note 32.

The credit quality of cash and cash equivalents balances may be summarised based on Moody's rating as follows at 31 December 2012:

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired			
- Cash balances with Central Bank	29,715	-	**29,715**
- Aa3 rated	-	1,989	**1,989**
- A2 rated	-	92	**92**
- B1 rated	-	261	**261**
- Caa1 rated	-	54,414	**54,414**
- Unrated	-	289	**289**
Total cash and cash equivalents, excluding cash on hand	**29,715**	**57,045**	**86,760**

7 Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents balances at 31 December 2011 is as follows:

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired			
- Cash balances with Central Bank	42,340	-	**42,340**
- Aa1 rated	-	493	**493**
- A2 rated	-	21	**21**
- Ba3 rated	-	339	**339**
- B1 rated	-	277	**277**
- B2 rated	-	24	**24**
- B3 rated	-	2,061	**2,061**
- Unrated	-	113	**113**
Total cash and cash equivalents, excluding cash on hand	**42,340**	**3,328**	**45,668**

8 Due from Other Banks

In thousands of Georgian Lari	31 December 2012	31 December 2011
Short-term placements with the NBG	756	16,744
Total due from other banks	**756**	**16,744**

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2012 and 31 December 2011 is as follows:

In thousands of Georgian Lari	31 December 2012	31 December 2011
Neither past due nor impaired		
- NBG	756	16,744
Total due from other banks	**756**	**16,744**

9 Loans and Advances to Customers

In thousands of Georgian Lari	31 December 2012	31 December 2011
Corporate loans	45,519	32,915
Mortgage loans	375	1,151
Loans to individuals – cards	164,120	177,242
Loans to individuals – consumer loans	22,456	24,691
Loans to individuals – auto	7,188	11,915
Loans to individuals – others	1,091	3,140
Loans to small and medium enterprises	2,534	8,145
Less: Provision for loan impairment	(37,325)	(17,624)
Total loans and advances to customers	**205,958**	**241,575**

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2012 are as follows:

In thousands of Georgian Lari	Corporate loans	Mortgage loans	Loans to individuals auto	Loans to individuals consumer loans	Loans to individuals cards	Loans to individuals others	Loans to small and medium enterprises	Total
Provision for loan impairment at 1 January 2012	**175**	**258**	**1,382**	**1,493**	**12,883**	**122**	**1,311**	**17,624**
Provision/(recovery of provision) for impairment during the year	39	(257)	368	2,649	39,012	353	2,199	**44,363**
Amounts written off during the year as uncollectible	-	-	(560)	(3,108)	(17,737)	(391)	(2,866)	**(24,662)**
Provision for loan impairment at 31 December 2012	**214**	**1**	**1,190**	**1,034**	**34,158**	**84**	**644**	**37,325**

The provision for impairment during 2012 differs from the amount presented in profit or loss for the year due to GEL 4,406 thousand, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

Movements in the provision for loan impairment during 2011 are as follows:

In thousands of Georgian Lari	Corporate loans	Mortgage loans	Loans to individuals auto	Loans to individuals consumer loans	Loans to individuals cards	Loans to individuals others	Loans to small and medium enterprises	Total
Provision for loan impairment at 1 January 2011	**385**	**316**	**1,732**	**212**	**3,264**	**134**	**3,209**	**9,252**
Provision/(recovery of provision) for impairment during the year	(210)	(58)	676	3,414	15,516	19	(1,021)	**18,336**
Amounts written off during the year as uncollectible	-	-	(1,026)	(2,133)	(5,897)	(31)	(877)	**(9,964)**
Provision for loan impairment at 31 December 2011	**175**	**258**	**1,382**	**1,493**	**12,883**	**122**	**1,311**	**17,624**

The provision for impairment during 2011 differs from the amount presented in profit or loss for the year due to GEL 3,181 thousand, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2012		31 December 2011	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	195,230	80%	218,139	84%
Trade	35,276	14%	26,146	10%
Retail	2,534	1%	8,145	3%
Transport, storage and communication	199	0%	193	0%
Other	10,044	4%	6,576	3%
Total loans and advances to customers (before impairment)	**243,283**	**100%**	**259,199**	**100%**

At 31 December 2012 the total aggregate amount of loans to top 10 borrowers (2011: 10 borrowers) of the Group amounted to GEL 34,234 thousand (2011: GEL 26,603 thousand) or 14% of the gross loan portfolio (2011: 10%).

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

In thousands of Georgian Lari	Corporate loans	Mortgage loans	Loans to individuals auto	Loans to individuals consumer loans	Loans to individuals cards	Loans to individuals others	Loans to small and medium enterprises	Total
Neither past due nor impaired								
1 to 5,000	148	8	1,485	20,207	120,963	494	19	**143,324**
5,000 to 15,000	174	19	2,005	-	1,096	153	82	**3,529**
15,000 to 100,000	762	146	374	-	179	93	256	**1,810**
100,000 to 200,000	2,233	-	-	-	-	-	-	**2,233**
200,000 to 400,000	3,117	-	-	-	-	-	-	**3,117**
400,000 to 1,000,000	5,061	-	-	-	-	-	-	**5,061**
1,000,000 to 2,000,000	7,284	-	-	-	-	-	-	**7,284**
2,000,000 to 3,100,000	4,893	-	-	-	-	-	-	**4,893**
3,100,000 to 5,300,000	19,540	-	-	-	-	-	-	**19,540**
Total neither past due nor impaired	**43,212**	**173**	**3,864**	**20,207**	**122,238**	**740**	**357**	**190,791**
Past due but not impaired								
- less than 30 days overdue	668	35	550	848	10,597	65	59	**12,822**
- 30 to 90 days overdue	859	134	374	552	5,423	33	15	**7,390**
Total past due but not impaired	**1,527**	**169**	**924**	**1,400**	**16,020**	**98**	**74**	**20,212**
Loans individually and collectively determined to be impaired (gross)								
- 90 to 180 days overdue	40	-	479	603	7,311	71	150	**8,654**
- 180 to 360 days overdue	171	-	918	245	18,251	35	682	**20,302**
- over 360 days overdue	569	33	1,003	1	300	147	1,271	**3,324**
Total individually and collectively impaired loans (gross)	**780**	**33**	**2,400**	**849**	**25,862**	**253**	**2,103**	**32,280**
Less impairment provisions	**(214)**	**(1)**	**(1,190)**	**(1,034)**	**(34,158)**	**(84)**	**(644)**	**(37,325)**
Total loans and advances to customers	**45,305**	**374**	**5,998**	**21,422**	**129,962**	**1,007**	**1,890**	**205,958**

At 31 December 2012, interest accrual on individually impaired loans was GEL 6,192 thousand (2011: GEL 3,051 thousand).

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

In thousands of Georgian Lari	Corporate loans	Mortgage loans	Loans to individuals auto	Loans to individuals consumer loans	Loans to individuals cards	Loans to individuals others	Loans to small and medium enterprises	Total
Neither past due nor impaired								
1 to 5,000	11	15	2,495	21,788	144,667	2,263	205	**171,444**
5,000 to 15,000	50	42	5,332	-	1,556	358	287	**7,625**
15,000 to 100,000	954	422	1,363	-	249	40	1,219	**4,247**
100,000 to 200,000	1,633	-	-	-	-	-	734	**2,367**
200,000 to 400,000	2,740	-	-	-	-	-	332	**3,072**
400,000 to 1,100,000	7,291	-	-	-	-	-	-	**7,291**
1,100,000 to 2,100,000	8,274	-	-	-	-	-	-	**8,274**
2,100,000 to 3,100,000	2,945	-	-	-	-	-	-	**2,945**
3,100,000 to 5,000,000	8,803	-	-	-	-	-	-	**8,803**
Total neither past due nor impaired	**32,701**	**479**	**9,190**	**21,788**	**146,472**	**2,661**	**2,777**	**216,068**
Past due but not impaired								
- less than 30 days overdue	21	-	531	802	15,658	153	632	**17,797**
- 30 to 90 days overdue	-	58	227	721	8,739	99	661	**10,505**
Total past due but not impaired	**21**	**58**	**758**	**1,523**	**24,397**	**252**	**1,293**	**28,302**
Loans individually and collectively determined to be impaired (gross)								
- 90 to 180 days overdue	-	-	151	737	5,338	57	346	**6,629**
- 180 to 360 days overdue	193	33	350	189	924	7	1,030	**2,726**
- over 360 days overdue	-	581	1,466	454	111	163	2,699	**5,474**
Total individually and collectively impaired loans (gross)	**193**	**614**	**1,967**	**1,380**	**6,373**	**227**	**4,075**	**14,829**
Less impairment provisions	**(175)**	**(258)**	**(1,382)**	**(1,493)**	**(12,883)**	**(122)**	**(1,311)**	**(17,624)**
Total loans and advances to customers	**32,740**	**893**	**10,533**	**23,198**	**164,359**	**3,018**	**6,834**	**241,575**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the reporting date. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually and collectively impaired loans as a result of this policy and the portfolio impairment methodology.

9 Loans and Advances to Customers (Continued)

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2012:

	Over-collateralised assets		Under-collateralised assets	
In thousands of Georgian Lari	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	45,139	95,603	166	24
Mortgage loans	341	1,653	33	-
Loans to individuals – consumer loans	19,220	36,199	2,202	2,089
Loans to individuals – auto	5,772	18,978	226	-
Loans to individuals – cards	-	-	129,962	-
Loans to individuals – others	152	801	855	2
Loans to small and medium enterprises	1,879	44,343	11	-

The effect of collateral at 31 December 2011:

	Over-collateralised assets		Under-collateralised assets	
In thousands of Georgian Lari	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	30,359	78,285	2,387	-
Mortgage loans	873	2,947	20	-
Loans to individuals – consumer loans	23,174	46,706	26	24
Loans to individuals – auto	10,265	26,981	268	-
Loans to individuals – cards	-	-	164,352	-
Loans to individuals – others	137	924	2,881	2
Loans to small and medium enterprises	6,748	70,129	85	84

Interest rate analysis of loans and advances to customers is disclosed in Note 26. Information on related party balances is disclosed in Note 32.

10 Investment in Joint Venture

The table below summarises the movements in the carrying amount of the Group's investment in joint venture.

In thousands of Georgian Lari	
Carrying amount at 1 January 2011	
Contributed capital	4,887
Impairment of investment in joint venture	(964)
Share of loss of joint venture	(40)
Carrying amount at 31 December 2011	**3,883**
Impairment of investment in joint venture	(573)
Share of loss of joint venture	(235)
Carrying amount at 31 December 2012	**3,075**

Contributed capital above includes building with carrying amount GEL 3,994 thousand and cash GEL 893 thousand. Impairment of investment in joint venture was recognised as the difference between the cost of the consideration transferred and the fair value of share in net assets of joint venture acquired.

10 Investment in Joint Venture (Continued)

In June 2011 the Group and third party established LLC "Wetzel Plaza". Based on establishment act both partners have equal 50% share and equal voting rights in the new Group.

Both partners possessed part of the building located at the same place. This property was transferred to capital of LLC Wetzel Plaza.

At 31 December 2012 and 2011, the Group's interest in joint venture and its summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Loss	% interest held	Country of incorporation
LLC Wetzel Plaza	893	8,943	592	1,480	-	80	50%	Georgia
Carrying amount at 31 December 2011	**893**	**8,943**	**592**	**1,480**	**-**	**80**		
LLC Wetzel Plaza	647	8,352	561	2,285	7	1,611	50%	Georgia
Carrying amount at 31 December 2012	**647**	**8,352**	**561**	**2,285**	**-**	**1,611**		

11 Premises, Equipment and Intangible Assets

In thousands of Georgian Lari	Premises	Office and computer equipment	Fixtures and fittings	Vehicles	Lease-hold improve-ments	Total premises and equipment	Computer software licences	Total
Cost at 1 January 2011	6,411	14,723	7,360	775	2,428	**31,697**	676	**32,373**
Accumulated depreciation at 1 January 2011	(402)	(6,937)	(3,348)	(273)	(497)	**(11,457)**	(395)	**(11,852)**
Carrying amount at 1 January 2011	**6,009**	**7,786**	**4,012**	**502**	**1,931**	**20,240**	**281**	**20,521**
Additions	465	1,328	1,065	60	474	**3,392**	16	**3,408**
Disposals - at cost	(4,412)	(658)	(958)	(223)	(253)	**(6,504)**	(143)	**(6,647)**
Disposals - accumulated depreciation	533	553	913	174	52	**2,225**	138	**2,363**
Depreciation charge	(190)	(2,368)	(1,695)	(62)	(194)	**(4,509)**	(67)	**(4,576)**
Cost at 31 December 2011	2,464	15,393	7,467	612	2,649	**28,585**	549	**29,134**
Accumulated depreciation at 31 December 2011	(59)	(8,752)	(4,130)	(161)	(639)	**(13,741)**	(324)	**(14,065)**
Carrying amount at 31 December 2011	**2,405**	**6,641**	**3,337**	**451**	**2,010**	**14,844**	**225**	**15,069**
Additions	390	360	7,582	183	1,173	**9,688**	-	**9,688**
Disposals - at cost	(19)	(27)	(165)	(148)	(450)	**(809)**	-	**(809)**
Disposals - accumulated depreciation	-	21	137	62	400	**620**	-	**620**
Depreciation charge	(66)	(390)	(2,009)	(48)	(1,245)	**(3,758)**	(61)	**(3,819)**
Cost at 31 December 2012	2,835	15,726	14,884	647	3,372	**37,464**	549	**38,013**
Accumulated depreciation at 31 December 2012	(125)	(9,121)	(6,002)	(147)	(1,484)	**(16,879)**	(385)	**(17,264)**
Carrying amount at 31 December 2012	**2,710**	**6,605**	**8,882**	**500**	**1,888**	**20,585**	**164**	**20,749**

The management considers that the fair value of the buildings has not changed significantly in 2012 and 2011 therefore no revaluation has been performed as at 31 December 2011 and 31 December 2012.

The monitoring of market was carried out by an independent Ukrainian firm of valuers, PB-Consulting, who hold a recognised and relevant professional qualification and who have recent experience in the valuation of assets in similar locations and in a similar category. The basis used for the appraisal was market value. Fair values were estimated using observable market prices in an active market.

12 Other Financial and Insurance Assets

In thousands of Georgian Lari	Note	31 December 2012	31 December 2011
Insurance receivables		4,631	4,470
Restricted cash		3,698	3,938
Receivables on credit card services		2,984	2,147
Financial derivatives	29	14	1,626
Investment securities available for sale		54	54
Accrued income receivables		60	23
Other receivables		2,686	384
Less: Provision for impairment		(2,701)	(832)
Total other financial and insurance assets		**11,426**	**11,810**

12 Other Financial and Insurance Assets (Continued)

Restricted cash represents deposits placed as cover for payment of card transactions and money transfers of customers. The Group does not have the right to use these funds for the purposes of funding its own activities.

Movements in the provision for impairment of other financial assets during 2012 are as follows:

In thousands of Georgian Lari	Insurance Receivables	Receivables on credit card services	Other receivables	Total
Provision for impairment at 1 January 2012	**314**	**134**	**384**	**832**
(Recovery of)/provision for impairment during the year	-	(127)	1,996	**1,869**
Provision for impairment at 31 December 2012	**314**	**7**	**2,380**	**2,701**

Movements in the provision for impairment of other financial assets during 2011 are as follows:

In thousands of Georgian Lari	Insurance Receivables	Receivables on credit card services	Accrued income receivables	Other receivables	Total
Provision for impairment at 1 January 2011	**137**	**-**	**8**	**358**	**503**
(Recovery of)/provision for impairment during the year	177	134	(8)	26	**329**
Provision for impairment at 31 December 2011	**314**	**134**	**-**	**384**	**832**

Analysis by credit quality of other financial and insurance assets outstanding at 31 December 2012 is as follows:

In thousands of Georgian Lari	Insurance receivables	Restricted cash	Receivables on credit card services	Financial derivatives	Investment securities available for sale	Accrued income receivables	Other receivables	Total
-Neither past due nor impaired	-	3,698	-	14	54	60	-	**3,826**
- collectively impaired	**4,631**	-	2,984	-	-	-	2,686	**10,301**
Total	**4,631**	**3,698**	**2,984**	**14**	**54**	**60**	**2,686**	**14,127**
Less impairment provision	(314)	-	(7)	-	-	-	(2,380)	**(2,701)**
Total other financial and insurance assets	**4,317**	**3,698**	**2,977**	**14**	**54**	**60**	**306**	**11,426**

12 Other Financial and Insurance Assets (Continued)

Analysis by credit quality of other financial and insurance assets outstanding at 31 December 2011 is as follows:

In thousands of Georgian Lari	**Insurance receivables**	**Restricted cash**	**Receivables on credit card services**	**Financial derivatives**	**Investment securities available for sale**	**Accrued income receivables**	**Other receivables**	**Total**
-Neither past due nor impaired	-	3,938	-	1,626	54	23	-	**5,641**
- collectively impaired	4,470	-	2,147	-	-	-	384	**7,001**
Total neither past due nor impaired and collectively impaired	**4,470**	**3,938**	**2,147**	**1,626**	**54**	**23**	**384**	**12,642**
Less impairment provision	(314)	-	(134)	-	-	-	(384)	**(832)**
Total other financial and insurance assets	**4,156**	**3,938**	**2,013**	**1,626**	**54**	**23**	**-**	**11,810**

13 Other Assets

In thousands of Georgian Lari	**31 December 2012**	**31 December 2011**
Receivable from insurance regress claims	2,458	2,531
Prepayments for premises and equipment	774	119
Repossessed assets	615	707
Prepayments for services	572	1,163
Other tax prepayment	608	462
Inventory	323	-
Other	137	73
Less: Provision for impairment	(2,470)	(2,484)
Total other assets	**3,017**	**2,571**

Repossessed assets were real estate acquired by the Group in settlement of overdue loans.

All of the above assets are expected to be recovered more than twelve months after the year-end except for prepayments for services of GEL 615 thousand (2011: GEL 1,163 thousand).

Movements in the provision for impairment of other assets during 2012 are as follows:

In thousands of Georgian Lari	**Insurance receivable from regress and other**	**Prepayments for services**	**Total**
Provision for impairment at 1 January 2012	2,396	88	**2,484**
Provision charge for impairment during the year	68	(82)	**(14)**
Provision for impairment at 31 December 2012	**2,464**	**6**	**2,470**

Movements in the provision for impairment of other assets during 2011 are as follows:

In thousands of Georgian Lari	**Insurance receivable from regress and other**	**Prepayments for services**	**Total**
Provision for impairment at 1 January 2011	76	82	**158**
Provision charge for impairment during the year	2,320	6	**2,326**
Provision for impairment at 31 December 2011	**2,396**	**88**	**2,484**

14 Due to Other Banks

In thousands of Georgian Lari	31 December 2012	31 December 2011
Short-term placements of other banks	65,644	27,815
Long-term loans from other banks	58,309	75,388
Long-term loan from Parent Bank	855	1,149
Correspondent accounts and overnight placements of other banks	88	87
Short-term placements from Parent Bank	-	55,132
Total due to other banks	**124,896**	**159,571**

At 31 December 2012 the Bank had outstanding aggregate balance due to one OECD bank of GEL 54,897 thousand (2011: GEL 58,767 thousand) or 47% (2011: 37%) of total due to other bank balances. Refer to Note 32.

At 31 December 2012 the estimated fair value of due to other banks was GEL 124,896 thousand (2011: GEL 159,571 thousand). Refer to Note 30. Interest rate analysis of due to other banks is disclosed in Note 26. Information on related party balances is disclosed in Note 32.

15 Customer Accounts

In thousands of Georgian Lari	31 December 2012	31 December 2011
State and public organisations		
- Current/settlement accounts	3,856	5,937
- Term deposits	12	45
Other legal entities		
- Current/settlement accounts	62,287	14,621
- Term deposits	18,854	13,726
Individuals		
- Current/demand accounts	9,642	7,520
- Term deposits	79,472	58,077
Total customer accounts	**174,123**	**99,926**

Economic sector concentrations within customer accounts are as follows:

	31 December 2012		31 December 2011	
In thousands of Georgian Lari	Amount	%	Amount	%
Individuals	89,114	51%	65,597	65%
Services	65,503	38%	11,018	11%
Manufacturing	12,292	7%	10,496	10%
Trade	1,840	1%	10,555	11%
Agriculture	1,029	1%	906	1%
Transport and communication	332	0%	843	1%
Other	4,013	2%	511	1%
Total customer accounts	**174,123**	100%	**99,926**	100%

At 31 December 2012 the Group had 1 customer (2011: 2 customers) with balances above GEL 50,000 thousand (2011: GEL 3,000 thousand). The aggregate balance of these customers was GEL 51,366 thousand (2011: GEL 6,889 thousand) or 29% (2011: 7%) of total customer accounts.

As of 31 December 2012 the Group maintained customer deposit balances of GEL 26,200 thousand (2011: GEL 20,931 thousand) which were blocked by the Group as collateral for loans and credit related commitments granted by the Group.

Interest rate analysis of customer accounts is disclosed in Note 26. . Fair value is disclosed in Note 30. Information on related party balances is disclosed in Note 32.

16 Provisions for Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In thousands of Georgian Lari	Guarantees	Total
Carrying amount at 1 January 2011	**292**	**292**
Unused amounts reversed	(70)	**(70)**
Carrying amount at 31 December 2011	**222**	**222**
Unused amounts reversed	(71)	**(71)**
Carrying amount at 31 December 2012	**151**	**151**

Provisions were created for losses incurred on financial guarantees on portfolio basis.

17 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Georgian Lari	31 December 2012	31 December 2011
Settlements on money transfer operations	3,894	2,442
Insurance loss reserves	962	676
Debit or credit card payables	76	77
Other accrued liabilities	54	8
Total other financial liabilities	**4,986**	**3,203**

18 Other Liabilities

Other liabilities comprise the following:

In thousands of Georgian Lari	31 December 2012	31 December 2011
Reserve for unearned premiums	6,648	3,966
Accrued employee benefit costs	1,710	1,257
Total other liabilities	**8,358**	**5,223**

19 Subordinated Debt

Subordinated debt outstanding at 31 December 2012 is as follows:

In thousands of Georgian Lari	Currency	Due	Amount
Loan 1	USD	31-Jan-18	2,447
Loan 2	USD	31-Jan-18	9,179
Loan 3	USD	31-Jan-18	12,240
Total			**23,866**

Subordinated debt outstanding at 31 December 2011 is as follows:

In thousands of Georgian Lari	Currency	Due	Amount
Loan 1	USD	31-Dec-15	2,500
Loan 2	USD	31-Dec-15	9,376
Loan 3	USD	31-Dec-15	12,499
Total			**24,375**

19 Subordinated Debt (Continued)

Subordinated debt was received in 2009.

Subordinated debt represents long term borrowing agreements from Parent Bank, which, in case of the Group's default, would be secondary to the Group's other obligations, including deposits and other debt instruments.

On 25 December 2009 contractual interest rates on subordinated loans were renegotiated and reduced to 3% p.a., effective retrospectively starting with the date of issue. As this change in contractual terms represented substantial change, the initial debt was derecognised and new debt was recognised at fair value. As the renegotiated contractual interest rate on the subordinated loans was lower than market interest rate, fair value adjustment has been recorded by application of the market rate of 13% and 10% effective at the loan restructuring date. The fair value gain on restructuring in the amount of GEL 10,016 thousand was recognised as additional paid-in capital.

In January 2012 the subordinated debt was prolongated from December 2015 to January 2018 without change of contractual interest rate and new financial instrument was recognised at fair value. That had effect on additional paid-in capital increase in amount of GEL 1,432 thousand. Market rate of 10% was determined at loan restructuring date.

Geographical, maturity and interest rate analysis of subordinated debt is disclosed in Note 26. Information on related party balances is disclosed in Note 32.

20 Share Capital

In thousands of Georgian Lari except for number of shares	**Number of outstanding shares**	**Ordinary shares**	**Share premium**	**Total**
At 1 January 2011	**760,000**	**76,000**	**4,308**	**80,308**
New shares issued	166,200	16,620	-	**16,620**
At 31 December 2011	**926,200**	**92,620**	**4,308**	**96,928**
New shares issued	-	-	-	-
At 31 December 2012	**926,200**	**92,620**	**4,308**	**96,928**

The total authorised number of ordinary shares is 926,200 thousand shares (2011: 926,200 thousand shares) with a par value of GEL 100 per share (2011: GEL 100 per share). All issued ordinary shares are fully paid.

In November 2011 the Bank issued an additional 166,200 ordinary shares with nominal amount of GEL 100 per share.

Each ordinary share carries one vote.

21 Interest Income and Expense

In thousands of Georgian Lari	31 December 2012	31 December 2011
Interest income		
Loans and advances to individuals	75,170	69,844
Due from other banks	5,697	3,416
Loans and advances to legal entities	5,547	3,764
Other	-	38
Total interest income	**86,414**	**77,062**
Interest expense		
Due to other banks	13,332	15,492
Current/settlement accounts	9,795	727
Term deposits of individuals	7,629	5,189
Subordinated debt	3,383	3,151
Term deposits of legal entities	1,847	2,362
Total interest expense	**35,986**	**26,921**
Net interest income	**50,428**	**50,141**

Interest income includes GEL 6,192 thousand (2011: GEL 3,051 thousand) interest income, recognised on impaired loans to customers.

22 Fee and Commission Income and Expense

In thousands of Georgian Lari	31 December 2012	31 December 2011
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Settlement transactions	4,185	2,799
- Guarantees issued	420	487
- Cash transactions and collection	209	177
- Other	599	310
Total fee and commission income	**5,413**	**3,773**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss		
- Settlement transactions	225	775
- Cash transactions	76	2
- Other	940	473
Total fee and commission expense	**1,241**	**1,250**
Net fee and commission income	**4,172**	**2,523**

23 Other Operating Income

In thousands of Georgian Lari	31 December 2012	31 December 2011
Net Insurance Premiums Earned	4,459	4,419
Income from regress	12	2,283
Income from security services	709	537
Gain less losses from disposals of investment securities available for sale	-	51
Sublease income	-	91
Other	459	263
Total other operating income	**5,639**	**7,644**

Income from regress represents reimbursement of claim payments made in previous periods. This income is recognised as soon as the insurance subsidiary of the Group obtains a legal right to claim the relevant amounts from the insured client.

24 Administrative and Other Operating Expenses

In thousands of Georgian Lari	Note	31 December 2012	31 December 2011
Staff costs		18,203	22,243
Operating lease expense for premises		6,431	5,716
Net Insurance Claims Incurred		5,622	2,510
Depreciation of premises and equipment	11	3,758	4,509
Utilities and office supplies		1,667	1,454
Communications and information services		1,480	1,780
Advertising and marketing services		1,306	1,224
Other insurance expenses		584	1,541
Office costs		480	1,095
Professional services		430	383
Security services		336	366
Travel expenses		313	353
Amortisation of software		61	67
Taxes other than on income	11	48	615
Other		1,493	878
Total administrative and other operating expenses		**42,212**	**44,734**

25 Income Taxes

Income tax credit comprises the following:

In thousands of Georgian Lari	31 December 2012	31 December 2011
Current tax charge/(credit)	59	310
Deferred tax credit	(1,827)	(1,429)
Income tax credit for the year	**(1,768)**	**(1,119)**

25 Income Taxes (Continued)

The income tax rate applicable to the majority of the Group's 2012 income is 15% (2011: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Georgian Lari	31 December 2012	31 December 2011
Loss before tax	(26,540)	(1,535)
Theoretical tax credit at statutory rate	(3,981)	(230)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	102	114
- Non-taxable income	(365)	(265)
Imputed taxable income on waived accrued interest income that was previously impaired	244	311
Unrecognised tax loss carry forwards	2,232	-
Utilisation of previously unrecognised tax loss carry forwards	-	(1,049)
Income tax credit for the year	**(1,768)**	**(1,119)**

In 2012 the Group has unrecognised tax loss carry forwards of GEL 14,880 thousand (2011: utilisation of previously unrecognised tax loss carry forwards GEL 6,993 thousand).

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of GEL 6,707 thousand (2011: GEL 4,475 thousand). The table below summarises the expiry dates for the utilisation of these tax losses:

In thousands of Georgian Lari	2012	2011
Tax loss carry-forwards expiring by the end of:		
- 31 December 2013	10,000	10,000
- 31 December 2014	13,524	13,524
- 31 December 2015	6,310	6,310
- 31 December 2017	14,877	-
Total tax loss carry forwards	**44,711**	**29,834**

Differences between IFRS and statutory taxation regulations in Georgia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2011: 15%).

In thousands of Georgian Lari	31 December 2011	Credited/ (charged) to profit or loss	Credited/ (charged) directly to equity	31 December 2012
Tax effect of deductible/(taxable) temporary differences				
Cash and cash equivalents	7	(7)	-	0
Premises and equipment	(609)	377	-	(232)
Loan impairment provision	(1,147)	1,243	-	96
Investment in joint venture	150	5	-	155
Customer accounts	7	27	-	34
Subordinated debt	(98)	98	(253)	(253)
Other financial and insurance assets	265	22	-	287
Other financial liabilities	12	(1)	-	11
Other liabilities	192	63	-	255
Net deferred tax liability/(asset)	**(1,221)**	**1,827**	**(253)**	**353**
Recognised deferred tax asset	**324**	**41**	**-**	**365**
Recognised deferred tax liability	**(1,545)**	**1,786**	**(253)**	**(12)**

25 Income Taxes (Continued)

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In thousands of Georgian Lari	31 December 2010	Credited/ (charged) to profit or loss	31 December 2011
Tax effect of deductible/(taxable) temporary differences			
Cash and cash equivalents	6	1	7
Premises and equipment	(1,107)	498	(609)
Loan impairment provision	(1,252)	105	(1,147)
Investment in joint venture	-	150	150
Customer accounts	11	(4)	7
Subordinated debt	(386)	288	(98)
Other financial and insurance assets	(38)	303	265
Other financial liabilities	18	(6)	12
Other liabilities	98	94	192
Net deferred tax liability	**(2,650)**	**1,429**	**(1,221)**
Recognised deferred tax asset	**16**	**308**	**324**
Recognised deferred tax liability	**(2,666)**	**1,121**	**(1,545)**

26 Financial Risk Management

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

Risk Management Bodies. Risk management policy, monitoring and control are conducted by a number of bodies of the Group under the supervision of the credit committee (the "Credit Committee"). Other bodies responsible for risk management within the Group include the Treasury, the Financial Risk Management Department and Risk Control Department. The Group also has a system of internal controls which is supervised and monitored by its Internal Audit Department and Financial Monitoring Department.

Credit Committee. The Credit Committee, which is composed of the Chairman of the Bank, its Deputies, the Heads of the Business, the Head of the Finance and Risk Management Department and the Head of the Treasury Department, meets bi-weekly and is responsible for setting credit policy, approving loans over the prescribed lending limits and the limits for counterparty banks, monitoring loan performance and the quality of the Group's loan portfolio and reviewing large loan projects and the lending policies of the Bank's branches. The Credit Committee also monitors the interest rates set for a range of currencies by the Group's main competitors and the overall market situation and determines the Group's pricing policy.

Treasury. Day-to-day asset and liability management is done by the Treasury. The Treasury is responsible for overseeing the Group's assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Financial and Risk Management Department and its own assessments. The Treasury is responsible for the operational aspects of asset and liability management.

The Financial and Risk Management Department calculates and monitors the Bank's compliance with the mandatory ratios set by the NBG, the requirement to maintain mandatory reserves on the Bank's correspondent account with the NBG and its internal liquidity ratios (in accordance with the Bank's internal Methodology for Liquidity Risk Assessment and Control). In carrying out these functions, the Financial and Risk Management Department works with the Treasury, its back office, and depositary and credit service officers of the head office business divisions and the Credit Committee.

26 Financial Risk Management (Continued)

Risk Control Department analyses the creditworthiness of counterparty banks, calculates provisions for the Group's active operations and limits for counterparty banks, monitors problem assets in the loan portfolio under credit programs, monitors compliance with interbank transaction limits, reviews the lending authority limits of branch and sub-branch heads, analyses lending policies of the branches and sub-branches and provides the Credit Committee with suggestions for improving its policies. It also determines the strategy and basic methodological approaches in the Group's risk management system and oversees its compliance with the requirements established by the NBG as well as the Group's internal guidelines (including, among others, transaction limits and balance sheet structural limits for branches and sub-branches).

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

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 28. The credit risk is mitigated by collateral and other credit enhancements.

The general principles of the Group's credit policy are outlined in the formal Group's Credit Policy. The formal and unified Group's Credit Manual regulates every significant aspect of the lending operations of the Group and outlines procedures for analysing the financial position of borrowers, or group of borrowers and the valuation of any proposed collateral and specifies the requirements for loan documentation and the procedures for the monitoring of loans. The Group has collateral policy based on a thorough review and assessment of the value of collateral.

A substantial portion of the Group's loan portfolio generally includes acceleration clauses in case of deterioration of the financial position of the borrower. Credit products are, except in very unusual circumstances, only made available to customers that hold accounts with the Group. This policy provides the dual benefits of additional security for the credit products and additional business for the Group in other areas of corporate banking services.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or groups of affiliated borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal payment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Basic information on the level of credit risk, including reports on the loan portfolio and the volume of problem assets broken down by credit programme and manager, is posted on the Group's internal website. This information is updated weekly and can be viewed both as of the current date and over a period of time. There are specific sections of the Group's website dedicated to problem assets for both corporate and retail clients and the portfolio of corporate loans.

Credit Committee on a monthly basis reviews the effectiveness of the credit policies for each business division and analysis information on the levels of non-performing loans.

A review of the lending and deposit-taking policy of each branch is presented to the Credit Committee twice per month. The following information on the Bank's branch loan portfolio is considered by the Credit Committee:

- information on the major risks taken (being the ten largest exposures in the portfolio);
- information on the ten largest problem loans.

26 Financial Risk Management (Continued)

Loan Approval Procedure. The lending policies and credit approval procedures of the Group are based on strict guidelines in accordance with the NBG regulations. The Group also has detailed regulations for collateral assessment, which is conducted by Group's trained specialists on collateral. The Group sets lending authority limits to limit risks to the Group arising from lending activities. Lending authority limits for senior managers of service centres are set twice per year by the Financial and Risk Department in the head office and approved by an order of the Bank together with proxies authorizing the relevant heads to make lending decisions. The lending authority limit of a branch or sub-branch head depends on the amount of own funds of a branch or sub-branch, overall rating of a branch or sub-branch and its integrated lending activity efficiency rating.

Lending authority limits for junior managers (heads of departments and divisions) are set by the head of the relevant branch or sub-branch and apply to a particular individual.

If the amount of a proposed loan does not exceed the lending authority limit of a head of a branch or sub-branch, the decision on granting the loan is taken by the credit committee of a branch. If the amount exceeds this limit, lending authority is granted from the head office in accordance with the Group's credit procedures. Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

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

Loan Monitoring. The Group's IT systems allow the Management monitoring of loans' performance on-line. The Group reassesses the credit risk on each loan on an on-going basis by (i) monitoring the financial and market position of the borrower and (ii) assessing the sufficiency of collateral for the loan. The financial and market position of the borrower is regularly reviewed. The review is based on the flow of funds into the customer's accounts, its most recent financial statements and other business and financial information submitted by the borrower or otherwise obtained by the Group.

The current market value of collateral is monitored regularly to assess its sufficiency with respect to the loan in question. The frequency of such reviews depends on the security provided and the degree of volatility of the asset's market price.

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

Currency risk. The Group is exposed to effects of fluctuations in the prevailing local/foreign currency exchange rates on its financial position. Currency risk is the risk that movements in foreign exchange rates will affect the Group's income or the value of its portfolios of financial instruments. The main element in the Group's risk policy regarding foreign currency risk is that there is no conscious effort to take a trading position in any currency. Limited open positions occur as a natural consequence of business operations only. The Group uses every effort to match its assets and liabilities by currency.

In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

26 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of reporting period:

	At 31 December 2012				At 31 December 2011			
In thousands of Georgian Lari	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	190,618	(122,650)	(43,080)	24,888	143,636	(93,230)	(102,871)	(52,465)
US Dollars	151,445	(193,929)	43,094	610	186,980	(184,575)	100,600	103,005
Euros	11,099	(11,184)	-	(85)	8,798	(9,199)	3,897	3,496
Russian Roubles	489	(100)	-	389	672	(1)	-	671
Ukrainian Hryvnia	52	-	-	52	43	(70)	-	(27)
Other	95	(8)	-	87	88	-	-	88
Total	**353,798**	**(327,871)**	**14**	**25,941**	**340,217**	**(287,075)**	**1,626**	**54,768**

Derivatives presented above monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the reporting date relative to the functional currency of the respective Group entities, with all other variables held constant:

	At 31 December 2012	At 31 December 2011
In thousands of Georgian Lari	Impact on profit or loss and equity	Impact on profit or loss and equity
US Dollar strengthening by 10%	52	8,755
US Dollar weakening by 10%	(52)	(8,755)
Euro strengthening by 5%	(4)	149
Euro weakening by 5%	4	(149)
Russian Rouble strengthening by 5%	17	29
Russian Rouble weakening by 5%	(17)	(29)
Ukrainian Hryvnia strengthening by 5%	2	(1)
Ukrainian Hryvnia weakening by 5%	(2)	1
Other strengthening by 5%	4	4
Other weakening by 5%	(4)	(4)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Finance and Risk Division and the Credit Committee are both responsible for interest rate risk management. The Finance and Risk Division establishes the principal policies and approaches to interest rate risk management and the Credit Committee conducts weekly monitoring and revision of interest rates for various currencies within certain time limits and product categories. The Group regularly monitors interest rate risk by means of interest rate gap analysis, which is based on grouping assets and liabilities sensitive to interest rates into a number of time bands. Fixed interest rate assets and liabilities are arranged by the time remaining until maturity.

26 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates. The Group has no financial assets or liabilities bearing floating interest rate.

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non-monetary	Total
31 December 2012						
Total financial assets	173,401	28,266	71,273	80,497	54	**353,491**
Total financial liabilities	103,693	76,896	54,303	92,979	-	**327,871**
Net interest sensitivity gap at 31 December 2012	**69,708**	**(48,630)**	**16,970**	**(12,482)**	**54**	**25,620**
31 December 2011						
Total financial assets	88,872	21,949	113,239	116,104	53	**340,217**
Total financial liabilities	122,272	14,931	58,367	91,505	-	**287,075**
Net interest sensitivity gap at 31 December 2011	**(32,724)**	**7,018**	**54,947**	**24,599**	**(22)**	**53,142**

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	At 31 December 2012			At 31 December 2011		
In % p.a.	GEL	USD	Euro	GEL	USD	Euro
Assets						
Cash and cash equivalents	-	0.07	-	5.25	-	-
Due from other banks	-	-	-	-	8.00	-
Loans and advances to customers						
- Corporate loans	12.00	13.73	12.50	12.00	13.73	14.00
- Mortgage loans	18.72	14.16	15.78	18.72	20.00	15.78
- Loans to individuals – cards	36.00	23.13	35.62	35.55	21.44	25.70
- Loans to individuals – consumer loans	20.40	-	-	36.00	-	-
- Loans to individuals – auto	-	18.00	-	15.00	18.00	-
- Loans to individuals – others	24.00	12.50	-	24.00	18.00	-
- Loans to small and medium enterprises	15.00	23.00	16.00	10.00	24.00	15.10
Liabilities						
Due to other banks	-	7.08	-	10.29	-	-
Customer accounts						
- term deposits	14.71	9.86	9.90	12.20	11.11	5.62
Subordinated loan	-	3.00	-	-	3.00	-

26 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2012 is set out below:

In thousands of Georgian Lari	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	61,874	172	54,522	**116,568**
Mandatory cash balances with NBG	19,090	-	-	**19,090**
Due from other banks	756	-	-	**756**
Loans and advances to customers	172,635	-	33,323	**205,958**
Other financial assets	7,566	3,553	-	**11,119**
Total financial assets	**261,921**	**3,725**	**87,845**	**353,491**
Liabilities				
Due to other banks	10,738	54,897	59,261	**124,896**
Customer accounts	164,661	-	9,462	**174,123**
Subordinated debt	-	-	23,866	**23,866**
Other financial liabilities	4,973	-	13	**4,986**
Total financial liabilities	**180,372**	**54,897**	**92,602**	**327,871**
Net position in on-balance sheet financial instruments	**81,549**	**(51,172)**	**(4,757)**	**25,620**
Credit related commitments	**19,947**	**-**	**-**	**19,947**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Balances with Georgian counterparties actually outstanding to/from offshore companies of these Georgian counterparties are allocated to the caption "Georgia".

The geographical concentration of the Group's assets and liabilities at 31 December 2011 is set out below:

In thousands of Georgian Lari	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	58,511	158	2,424	**61,093**
Mandatory cash balances with NBG	8,995	-	-	**8,995**
Due from other banks	16,744	-	-	**16,744**
Loans and advances to customers	217,406	-	24,169	**241,575**
Other financial assets	11,810	-	-	**11,810**
Total financial assets	**313,466**	**158**	**26,593**	**340,217**
Liabilities				
Due to other banks	44,538	-	115,033	**159,571**
Customer accounts	93,392	22	6,512	**99,926**
Subordinated debt	-	-	24,375	**24,375**
Other financial liabilities	3,196	-	7	**3,203**
Total financial liabilities	**141,126**	**22**	**145,927**	**287,075**
Net position in on-balance sheet financial instruments	**172,340**	**136**	**(119,334)**	**53,142**
Credit related commitments	**10,671**	**-**	**418**	**11,089**
Non-financial assets	**21,847**	**-**	**-**	**21,847**
Total assets	**335,313**	**158**	**26,593**	**362,064**

26 Financial Risk Management (Continued)

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

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

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 40.29% at 31 December 2012 (2011: 26.71%), above the prudential minimum limit (30%) set by NBG.

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

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

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The table below shows liabilities at the reporting dates by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount discloused in consolidated statement of financial position is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

26 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2012 is as follows:

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
Liabilities					
Due to other banks	12,049	55,986	5,645	62,930	**136,610**
Customer accounts	89,124	23,388	57,996	11,321	**181,829**
Subordinated debt	93	162	725	33,347	**34,327**
Other financial liabilities	5,061	-	-	-	**5,061**
Gross Settled Derivatives	43,080	-	-	-	**43,080**
Financial guarantees	222	464	2,682	4,034	**7,402**
Other credit related commitments	32	5,720	6,794	-	**12,546**
Total potential future payments for financial obligations	**149,661**	**85,720**	**122,755**	**111,632**	**420,855**

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

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
Liabilities					
Due to other banks	84,373	1,465	18,610	79,095	**183,543**
Customer accounts	37,397	15,887	44,620	7,229	**105,133**
Subordinated debt	86	163	731	34,600	**35,580**
Other financial liabilities	1,723	-	-	905	**2,628**
Gross Settled Derivatives	53,958	-	48,913	-	**102,871**
Financial guarantees	155	370	1,406	5,112	**7,043**
Other credit related commitments	60	862	3,124	-	**4,046**
Total potential future payments for financial obligations	**177,752**	**18,747**	**117,404**	**126,941**	**440,844**

26 Financial Risk Management (Continued)

The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap which may be summarised as follows at 31 December 2012:

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	116,568	-	-	-	-	**116,568**
Mandatory cash balances with NBG	19,090	-	-	-	-	**19,090**
Due from other banks	491	-	265	-	-	**756**
Loans and advances to customers	31,380	28,266	65,815	80,497	-	**205,958**
Other financial and insurance assets	6,179	-	5,193	-	54	**11,426**
Total financial assets	**173,708**	**28,266**	**71,273**	**80,497**	**54**	**353,798**
Liabilities						
Due to other banks	10,529	54,897	295	59,175	-	**124,896**
Customer accounts	88,252	21,925	54,008	9,938	-	**174,123**
Subordinated debt	50	95	441	2,342	20,938	**23,866**
Other financial liabilities	4,912	-	-	-	74	**4,986**
Financial guarantees	7,402	-	-	-	-	**7,402**
Other credit related commitments	32	5,720	6,794	-	-	**12,546**
Total potential future payments for financial obligations	**111,177**	**82,637**	**61,538**	**71,455**	**21,012**	**347,819**
Net liquidity (gap)/surplus at 31 December 2012	**62,531**	**(54,371)**	**9,735**	**9,042**	**(20,958)**	**5,979**
Cumulative liquidity (gap)/surplus at 31 December 2012	**62,531**	**8,160**	**17,895**	**26,937**	**5,979**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

26 Financial Risk Management (Continued)

The analysis by expected contractual maturities may be summarised as follows at 31 December 2011:

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	61,093	-	-	-	-	61,093
Mandatory cash balances with NBG	8,995	-	-	-	-	8,995
Due from other banks	-	-	16,744	-	-	16,744
Loans and advances to customers	12,544	21,949	90,979	107,352	8,751	241,575
Other financial assets	6,240	-	5,516	-	54	11,810
Total financial assets	**88,872**	**21,949**	**113,239**	**107,352**	**8,805**	**340,217**
Liabilities						
Due to other banks	83,014	-	16,389	60,168	-	159,571
Customer accounts	36,891	14,931	41,903	6,201	-	99,926
Subordinated debt	50	95	441	23,789	-	24,375
Other financial liabilities	1,691	-	-	761	75	2,527
Financial guarantees	7,043	-	-	-	-	7,043
Other credit related commitments	60	862	3,124	-	-	4,046
Total potential future payments for financial obligations	**128,749**	**15,888**	**61,857**	**90,919**	**75**	**297,488**
Net liquidity (gap)/surplus at 31 December 2011	**(39,877)**	**6,061**	**51,382**	**16,433**	**8,730**	**42,729**
Cumulative liquidity (gap)/surplus at 31 December 2011	**(39,877)**	**(33,816)**	**17,566**	**33,999**	**42,729**	

Insurance risk. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable for each individual insurance contract.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insured events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The Group manages insurance risk by means of established internal procedures which include:

- Establishment of underwriting procedures intended for underwriting department to monitor loss performance of the insurance portfolios by lines of business;
- Use of reinsurance, including an excess of loss reinsurance treaty and quota share reinsurance on a case by case basis, to limit the Group's exposure to claims/catastrophes;
- Monitoring by the management of assets and liabilities to try to match the pattern of expected claim payments with the dates of maturity of assets;
- Diversification over several classes of insurance business.

Insurance services are provided to legal entities and individuals principally in Georgia. Services rendered cover following type of insurance: motor, medical, life, property, insurance of financial risks, bank guarantee, personal accident and travel.

26 Financial Risk Management (Continued)

Reinsurance policy

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

From current year the Group decided not to reinsure new policies as the diversification over several classes of insurance business gives opportunity to manage risks in house.

Estimation of insurance loss reserves

In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio. IBNR provisions are calculated as 5% of premiums (5% of gross premiums for IBNR gross reserve and 5% of ceded premiums for reinsurers' share of IBNR).

Sensitivity analysis

If the Group had calculated IBNR as 10% of premiums, then profit before tax would have been GEL 413 thousand higher (2011: GEL 317 thousand).

Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract. Mostly claims are settled within a short period of time, which historically has not exceeded 3 months from the end of the contract term. There are several variables that affect the amount and timing of cash flows from insurance contracts. These mainly relate to the inherent risks of the activities carried out by both corporate and individual contract holders and the risk management procedures they adopted. The compensation paid on insurance contracts in the Group's portfolio primarily consists of monetary awards granted for:

- medical insurance;
- physical damage to motor vehicles (for motor vehicle insurance covers);
- financial loss, bodily injury and physical damage suffered by the third parties (caused by the vehicle owners); and
- physical damage to property (for property insurance covers).

Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

Diversification

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

All insurance risks are concentrated in Georgia.

27 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8% and to comply with the capital requirements set by the National Bank of Georgia. The Group considers total capital under management to be equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2012 was GEL 44,612 thousand (2011: GEL 67,951 thousand).The table below reflects calculation of the regulatory capital and ratio calculation in accordance with the Parent Bank methodology.

In thousands of Georgian Lari	31 December 2012	31 December 2011
Tier 1 capital		
Share capital	92,620	92,620
Share premium	4,308	4,308
Retained earnings	(63,901)	(39,129)
Less: Intangible assets	(164)	(225)
Total qualifying Tier 1 capital	**32,863**	**57,574**
Tier 2 capital		
Revaluation reserves	136	136
Additional capital	11,449	10,016
Subordinated debt	23,866	19,500
Total qualifying Tier 2 capital	**35,451**	29,652
Total capital	**68,314**	**87,226**
Risk-weighted assets:		
On-balance sheet	252,997	364,436
Off-balance sheet	7,401	7,043
Total risk-weighted assets	**260,398**	**371,479**
Basel ratio	**26%**	**24%**

Under the current capital requirements set by the National Bank of Georgia the Bank has to: (a) hold the minimum level of share capital of GEL 12,000 thousand (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 18% (generally specified level is 12% but NBG set different rate for the Bank due to significant portion of unsecured loans) and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 8%. Compliance with capital adequacy ratios set by the National Bank Georgia is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and the Chief Accountant and subsequently submitted to the NBG. By NBG calculation Capital adequacy ratio represents 20.59% (2011: 18.28%), total regulatory capital of GEL 58,569 thousand (2011: GEL 68,964 thousand).

28 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. Based on its own estimates and internal professional advice the Bank's Management is of the opinion that no material losses will be incurred in respect of claims and, accordingly, no provision has been made in this set of consolidated financial statements.

Non-compliance with the NBG regulations. The Bank is subject to certain statutory regulations set by the NBG related primarily to its operations. Non-compliance with such regulations may result in negative consequences for the Bank including penalties imposed by the NBG. The Bank was not in breach of any capital requirement regulations as of 31 December 2012 and 2011. However, two indicators (ratio of unsecured loans and average liquidity ratio) were breached as at the end of 2011. The non-compliance with such indicators may lead to sanctions imposed by the NBG. During 2012 and up to the report issue date no penalties and fines or other adverse actions were imposed by NBG. Refer to Note 33.

28 Contingencies and Commitments (Continued)

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Recent events within Georgia suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar periods proceeding the period of review. Under certain circumstances reviews may cover longer periods. Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2012 no provision for potential tax liabilities has been recorded.

Capital expenditure commitments. At 31 December 2012, the Group does not have material contractual capital expenditure commitments.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards and adequate collateral. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of Georgian Lari	**Notes**	**31 December 2012**	**31 December 2011**
Guarantees issued		7,552	7,187
Unused credit lines		12,546	4,046
Less: Provision for credit related commitments	16	(151)	(144)
Total credit related commitments, net of provision		**19,947**	**11,089**

Credit related commitments are denominated in currencies as follows:

In thousands of Georgian Lari	**31 December 2012**	**31 December 2011**
Georgian Lari	2,844	2,066
US Dollars	16,253	7,274
Euros	15	928
Swiss Franc	835	821
Total	**19,947**	**11,089**

Assets pledged and restricted. The Group does not have assets pledged as collateral.

29 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward contracts entered into by the Group and presented within other financial assets and other financial liabilities. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period. The contracts are short term in nature.

	2012		2011	
In thousands of Georgian Lari	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange swaps: fair values, at the end of the reporting period date, of				
- USD receivable on settlement (+)	24,867	18,227	100,600	-
- Euros receivable on settlement (+)	-	-	-	3,897
- GEL payable on settlement (-)	(24,748)	(18,332)	(98,957)	(3,914)
Net fair value of foreign exchange swaps	**119**	**(105)**	**1,643**	**(17)**

30 Fair Value of Financial Instruments

Fair values of financial instruments carried at amortised cost are as follows:

	2012		2011	
In thousands of Georgian Lari	Fair value	Carrying value	Fair value	Carrying value
Financial assets				
Cash and cash equivalents	116,568	116,568	61,093	61,093
Mandatory reserves	19,090	19,090	8,995	8,995
Due from other banks	-	-	16,744	16,744
Corporate loans	44,162	45,305	32,087	32,740
Mortgage loans	176	374	650	893
Loans to individuals – cards	129,963	129,962	164,359	164,359
Loans to individuals – consumer loans	21,184	21,422	22,901	23,198
Loans to individuals – auto	5,034	5,998	9,692	10,533
Loans to individuals – others	956	1,007	2,953	3,018
Loans to small and medium enterprises	1,270	1,890	5,218	6,834
Other financial assets	11,358	11,358	11,810	11,810
Total financial assets carried at amortised cost	**349,829**	**353,042**	**336,502**	**340,217**
Financial liabilities				
Due to other banks	124,896	124,896	159,571	159,571
Customer accounts	174,123	174,123	99,926	99,926
Other financial liabilities	4,986	4,986	2,527	2,527
Subordinated debt	23,866	23,866	24,375	24,375
Total financial liabilities carried at amortised cost	**327,871**	**327,871**	**286,399**	**286,399**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices were not available, the Group used valuation techniques.

30 Fair Value of Financial Instruments (Continued)

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2012	2011
Due from other banks	-	8
Loans and advances to customers		
Corporate loans	13	13
Mortgage loans	16	18
Loans to individuals – cards	32	27
Loans to individuals – consumer loans	20	36
Loans to individuals – auto	9	16
Loans to individuals – others	18	24
Loans to small and medium enterprises	18	16
Customer accounts	11	7
Due to other banks	-	10
Subordinated debt	10	11

31 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement,* classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The following table provides a reconciliation of financial assets with measurement categories as of 31 December 2012 and 31 December 2011.

	31 December 2012				31 December 2011			
In thousands of Georgian Lari	Loans and receiv-ables	Available-for-sale assets	Fair value through profit or loss	Total	Loans and receiv-ables	Available-for-sale assets	Fair value through profit or loss	Total
Cash and cash equivalents	116,568	-	-	116,568	61,093	-		61,093
Mandatory cash balances with NBG	19,090	-	-	19,090	8,995	-		8,995
Due from other banks	756	-	-	756	16,744	-		16,744
Loans and advances to customers	205,958	-	-	205,958	241,575	-		241,575
Investment securities available for sale	-	54	-		-	54		54
Other Financial Assets	11,358	-	14	11,372	10,130	-	1,626	11,756
Total financial assets	**353,730**	**54**	**14**	**353,798**	**340,163**	**54**	**1,626**	**340,217**

As at 31 December 2012 and 2011 all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

32 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Included in key management personnel are General Director and two Deputy Directors.

At 31 December 2012 the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	Parent bank	Companies under control of major shareholders	Key management
Cash and cash equivalents (contractual interest rate: 0%)	53,608	122	-
Loans and advances to customer (contractual interest rate: 3%)	-	6	64
Subordinated debt (contractual interest rate: 3%)	23,866	-	-
Customer accounts (contractual interest rate: 0 - 13%)	-	41	757
Due to other banks (contractual interest rate: 3 - 13%)	11	58,309	-

At 31 December 2011 the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	Parent bank	Companies under control of major shareholders	Key management
Cash and cash equivalents (contractual interest rate: 0-2%)	27,400	13,520	-
Due from other banks (contractual interest rate: 0%)	17,729	-	-
Subordinated debt (contractual interest rate: 3%)	24,375	-	-
Customer accounts (contractual interest rate: 3 - 4%)	-	22	138
Due to other banks (contractual interest rate: 0%)	19,177	-	-

At 31 December 2012 the Parent Bank pledged guarantee deposit against the Group's loan taken from OECD bank with the carrying value of GEL 54,897 thousand.

The income and expense items with related parties for 2012 were as follows:

In thousands of Georgian Lari	Parent bank	Companies under control of major shareholders	Key management
Interest income	2	-	-
Interest expense	(3,383)	(7,307)	(5)
Fee and commission income	-	67	-
Fee and commission expense	(32)	(1)	-

The income and expense items with related parties for 2011 were as follows:

In thousands of Georgian Lari	Parent bank	Companies under control of major shareholders
Interest income	955	237
Interest expense	(1,302)	(4,921)

Key management compensation is presented below

In thousands of Georgian Lari	31 December 2012 Expense	31 December 2011 Expense
Short-term benefits:		
- Salaries	824	680
Total	824	680

32 Related Party Transactions (Continued)

In December 2011 Unimain Holdings Limited sold 5% of the Bank's shares to the key management of the Bank. The price for the sale of shares was determined based on the net assets value of the Bank. At the same time Unimain Holdings Limited entered into agreements with the same members of management to repurchase these shares, with the repurchase price linked to the net assets value of the Bank. As such, additional remuneration available to key management of the Bank is linked to growth in the net assets value of the Bank. Based on the terms of the agreements the shares are blocked and there is no possibility for the managers to retain the shares or otherwise receive any benefits from them, as the agreements and restriction on shares will be in force until the shares are sold back to the original shareholder.