BANK REPUBLIC AND ITS SUBSIDIARIES

Consolidated Financial Statements
For the Year Ended December 31, 2011

BANK REPUBLIC AND ITS SUBSIDIARIES

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Closed Joint Stock Company Bank Republic (the "Bank") and its subsidiaries (together the "Group") at December 31, 2011, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Georgia;
- Taking such steps that are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended December 31, 2011 were authorised for issue on April 30, 2012 by the Management Board of the Bank.

On behalf of the Management Board of the Group:

Chief Executive Officer **Christian Carmagnolle**	**Chief Accountant** **Maia Pachkoria**
April 30, 2012 *Tbilisi, Georgia*	*April 30, 2012* *Tbilisi, Georgia*

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Joint Stock Company Bank Republic:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Joint Stock Company Bank Republic (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 30, 2012
Tbilisi, Georgia

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2011	Year ended December 31, 2010 Restated
Continuing operations			
Interest income	5, 28	60,445	74,589
Interest expense	5, 28	(27,655)	(35,763)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		32,790	38,826
Provision for impairment losses on interest bearing assets	6, 28	(12,313)	(35,540)
NET INTEREST INCOME		20,477	3,286
Net gain on foreign exchange operations	7	13,787	9,213
Fee and commission income	8, 28	8,272	8,765
Fee and commission expense	8, 28	(2,857)	(2,720)
Provision on other operations	6	(14,316)	(91)
Share of profits of associates	17, 28	(12)	137
Other income	9	4,450	4,060
NET NON-INTEREST INCOME		9,324	19,364
OPERATING INCOME		29,801	22,650
OPERATING EXPENSES	10, 28	(66,582)	(56,632)
(LOSS)/INCOME BEFORE INCOME TAX		(36,781)	(33,982)
Income tax expense	11	5,367	4,849
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(31,414)	(29,133)
Discontinued operations			
Loss for the year from discontinued operations	21	-	(1,861)
NET (LOSS)/PROFIT FOR THE YEAR		(31,414)	(30,994)
Attributable to:			
Owners of the Bank		(31,414)	(30,994)
Non-controlling interest		-	-
		(31,414)	(30,994)

On behalf of the Management Board:

Chief Executive Officer
Christian Carmagnolle

April 30, 2012
Tbilisi, Georgia

Chief Accountant
Maia Pachkoria

April 30, 2012
Tbilisi, Georgia

The notes on pages 10-68 form an integral part of these consolidated financial statements.

BANK REPUBLIC AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2011

(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
			Restated
LOSS FOR THE YEAR		(31,414)	(30,994)
OTHER COMPREHENSIVE INCOME			
Revaluation of land and buildings		(375)	1,558
Net transfers to profit		(375)	1,558
Income tax relating to components of other comprehensive income		56	(233)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX		(319)	1,325
TOTAL COMPREHENSIVE INCOME		(31,733)	(29,669)
Attributable to:			
Owners of the parent		(31,733)	(29,669)
Non-controlling interest		-	-
TOTAL COMPREHENSIVE INCOME		(31,733)	(29,669)

On behalf of the Management Board:

Chief Executive Officer
Christian Carmagnolle

April 30, 2012
Tbilisi, Georgia

Chief Accountant
Maia Pachkoria

April 30, 2012
Tbilisi, Georgia

The notes on pages 10-68 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011
(in thousands of Georgian Lari)

	Notes	December 31, 2011	December 31, 2010 Restated	January 1, 2010 Restated
ASSETS:				
Cash and balances with the National Bank of Georgia	12	108,638	72,575	98,417
Due from banks	13, 28	32,938	197,947	114,694
Loans to customers	14, 28	408,198	378,654	483,347
Investments available-for-sale	15, 28	166	206	206
Investments held to maturity	16, 28	48,809	47,399	41,990
Investments in associates	17, 41	1,290	1,302	1,932
Property and equipment	18	62,885	67,878	64,861
Investment property	19	12,328	-	-
Deferred income tax assets	11	2,460	-	-
Other assets	20, 28	24,738	23,321	24,774
Assets classified held for sale	21, 28	-	21,197	-
TOTAL ASSETS		702,450	810,479	830,221
LIABILITIES AND EQUITY				
LIABILITIES:				
Due to banks	22, 41	221,114	152,588	199,078
Customer accounts	23, 41	337,626	486,594	453,763
Provisions	5	214	631	1,163
Deferred income tax liabilities	11	-	2,963	7,579
Other liabilities	24	6,043	4,027	4,398
Subordinated debt	25, 28	42,326	44,917	42,711
Liabilities directly associated with assets classified as held for sale	21, 28	-	11,899	-
Total liabilities		607,323	703,619	708,692
EQUITY:				
Equity attributable to owners of the Bank:				
Share capital	26	56,983	48,325	42,600
Share premium	26	38,962	27,620	18,345
Property revaluation reserve		15,232	15,976	15,448
(Accumulated deficit)/retained earnings	26	(16,050)	14,939	45,136
Total equity attributable to owners of the Bank		95,127	106,860	121,529
Non-controlling interest		-	-	-
Total equity		95,127	106,860	121,529
TOTAL LIABILITIES AND EQUITY		702,450	810,479	830,221

On behalf of the Management Board:

Chief Executive Officer **Christian Carmagnolle**	**Chief Accountant** **Maia Pachkoria**
April 30, 2012 *Tbilisi, Georgia*	*April 30, 2012* *Tbilisi, Georgia*

The notes on pages 10-68 form an integral part of these consolidated financial statements.

BANK REPUBLIC AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands of Georgian Lari)

	Note	Share capital	Share premium	Property revaluation reserve	Retained earnings/ (accumulated deficit)	Total equity
January 1, 2010 (before restatement)		42,600	18,345	15,448	44,326	120,719
Effect of amortization reversal on intangible assets with indefinite useful lives		-	-	-	810	810
January 1, 2010 (as restated)		**42,600**	**18,345**	**15,448**	**45,136**	**121,529**
Total comprehensive income for the year		-	-	1,325	(30,994)	(29,669)
Transfer of realized property revaluation reserve		-	-	(797)	797	-
Issue of ordinary shares		5,725	9,275	-	-	15,000
December 31, 2010		**48,325**	**27,620**	**15,976**	**14,939**	**106,860**
Total comprehensive income for the year		-	-	(319)	(31,414)	(31,733)
Transfer of realized property revaluation reserve		-	-	(425)	425	-
Issue of ordinary shares		8,658	11,342	-	-	20,000
December 31, 2011		**56,983**	**38,962**	**15,232**	**(16,050)**	**95,127**

On behalf of the Management Board:

Chief Executive Officer
Christian Carmagnolle

April 30, 2012
Tbilisi, Georgia

Chief Accountant
Maia Pachkoria

April 30, 2012
Tbilisi, Georgia

The notes on pages 10-68 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		67,851	73,079
Interest paid		(28,930)	(36,059)
Fees and commissions received		8,272	8,765
Fees and commissions paid		(2,857)	(2,720)
Realised gain on foreign exchange operations		12,228	10,486
Other operating income received		3,342	3,667
Operating expenses paid		(66,265)	(54,283)
Cash (outflow)/inflow from operating activities before changes in operating assets and liabilities		(6,359)	2,935
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the National Bank of Georgia		(27,463)	(10,218)
Due from banks		(2,729)	(2,958)
Loans to customers		(61,152)	57,791
Other assets		380	912
Increase/(decrease) in operating liabilities:			
Due to banks		67,857	(46,164)
Customer accounts		(147,092)	32,805
Other liabilities		1,707	(362)
Cash (outflow)/inflow from operating activities before taxation		(174,851)	34,741
Income tax paid		-	-
Net cash (outflow)/inflow from operating activities		(174,851)	34,741
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for property and equipment, and intangible assets		(2,251)	(3,894)
Proceeds on disposal of property and equipment		-	1,156
Proceeds on investments available-for-sale		40	-
Proceeds on sale of investments in associate		-	640
Payments for investments held to maturity		(1,096)	(4,353)
Net cash outflow from investing activities		(3,307)	(6,451)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011 (CONTINUED)
(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of ordinary shares		20,000	15,000
Repayment of subordinated debt		(2,523)	-
Proceeds from subordinated debt		-	2,202
Net cash inflow from financing activities		17,477	17,202
Effect of exchange rate changes on the balance of cash held in foreign currencies		1,559	(1,273)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(160,681)	45,492
CASH AND CASH EQUIVALENTS, beginning of the year	12	242,164	197,945
CASH AND CASH EQUIVALENTS, end of the year	12	83,042	242,164

On behalf of the Management Board:

Chief Executive Officer **Christian Carmagnolle**	**Chief Accountant** **Maia Pachkoria**
April 30, 2012 *Tbilisi, Georgia*	*April 30, 2012* *Tbilisi, Georgia*

The notes on pages 10-68 form an integral part of these consolidated financial statements.

1. ORGANIZATION

Close Joint Stock Company Bank Republic (the "Bank") is a joint-stock bank, which was incorporated in Georgia in 1992. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under general banking license number 5. The Bank's primary business consists of commercial activities, originating loans and guarantees, attracting customer accounts, trading with securities and foreign currencies.

The registered office of the Bank is located at 2 Grigol Abashidze Street, 0179, Tbilisi Georgia.

As at December 31, 2011 the Bank had 8 branches and 29 service centers operating in Georgia.

As at December 31, 2010 the Bank had 8 branches and 40 service centers operating in Georgia.

The Bank is a parent company of a banking group (the "Group") which consists of the following enterprises consolidated in the financial statements:

		Proportion of ownership interest/voting rights (%)	
Name	**Country of operation**	**2011**	**2010**
JSC Bank Republic	Georgia	Parent	
Georgian Mill Company LLC	Georgia	100.00%	100.00%
Pirveli Mertskhali LLC	Georgia	100.00%	0.00%

In July 2010 the Bank established 100% subsidiary Georgian Mill Company LLC for the purpose of repossessing and then selling one of its former borrower Begi LLC, who has become insolvent. Georgian Mill Company LLC has not been operating during the years ended December 31, 2011 and 2010.

In 2011 the Bank acquired 100% share of its insolvent borrower, Mertskhali Pirveli LLC, whose only operation is renting out the investment property.

As at December 31, 2011 and 2010, the following shareholders owned issued shares of the Group:

	December 31, 2011, %	December 31, 2010, %
Shareholders		
Societe Generale Group	84.04%	81.18%
European Bank for Reconstruction and Development (the "EBRD")	8.48%	10.00%
Lasha Papashvili	7.48%	8.82%
Total	**100.00%**	**100.00%**

These consolidated financial statements were authorized for issue on April 30, 2012 by the Management Board of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Other basis of presentation criteria

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue its operations for the foreseeable future. The shareholders and the management of the Group have the intention to further develop the business of the Group in Georgia both in corporate and retail segments. The Group's management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ration and based on historical experience that short-term obligations will be refinanced in the normal course of business.

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis except for the measurement at fair value of certain financial instruments, and the measurement at revalued amounts of repossessed assets, and land and buildings as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Bank and its consolidated companies are registered in Georgia and maintain their accounting records in accordance with Georgian law. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non—current) is presented in Note 31.

Financial assets and financial 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 settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities (including special purpose entities) controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank. Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Bank had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed.

All other commissions are recognized when services are provided.

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: investments ‘held to maturity’, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

<u>Investments held to matuirty</u>

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Investments held to maturity are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of investments held to maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

<u>Available-for-sale financial assets</u>

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) investments held-to-maturity or (c) financial assets at fair value through profit or loss.

The Group has investment in unlisted shares that are not traded in an active market and are classified as AFS financial assets.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Receivables, loans, and advances that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost would be considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

Derecognition of financial assets

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

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer required that the Group either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized.

If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

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

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”; and

- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts and advances to banks with original maturities within ninety days, except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time and thus are considered liquid.

For purposes of determining cash flows, the minimum reserve deposit required by the National Bank of Georgia is not included as a cash equivalent due to restrictions on its availability.

Property and equipment

Initial cost of property and equipment is assessed based on actual expenses for their acquisition that comprise purchase price, including non-refundable purchase taxes and any directly attributed costs of bringing the asset to its working condition and location for intended use. Subsequent to initial recognition property and equipment, except for land and buildings are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Land and buildings held for use in the supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	3.33%
Office and computer equipment	10%-20%
Vehicles	20%
Other	20%

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation on revalued buildings is charged to the consolidated income statement. On the subsequent use of the revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained earnings. 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 historical cost.

Revalued amounts of land and buildings are assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, property and equipment, loans to customers and provisions, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with other assets and liabilities are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Operating taxes

Georgia also has various other taxes, which are assessed on the Group’s activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	December 31, 2011	December 31, 2010
GEL /1 US Dollar	1.6703	1.7728
GEL /1 Euro	2.1614	2.3500

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer’s assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities are recognised and measured in accordance with IAS 12, “Income Taxes”.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree''s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, “Financial Instruments: Recognition and Measurement”, or IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to January 1, 2011 were accounted for in accordance with the previous version of IFRS 3.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39, “Financial Instruments: Recognition and Measurement” are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group’s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36, “Impairment of Assets” as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36, “Impairment of Assets” to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Financial assets held to maturity

The management has reviewed the Group's financial assets held to maturity in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. The carrying amount of the financial assets held to maturity as at December 31, 2011 and 2010 and January 1, 2010 amount to GEL 48,809 thousand, GEL 47,399 thousand and GEL 41,990 thousand, respectively. Details of these assets are set out in Note 16.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its consolidated financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Georgia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at December 31, 2011 and 2010 and January 1, 2010 the gross loans to customers totalled GEL 465,686 thousand, GEL 428,359 thousand and GEL 538,339 thousand, respectively, and allowance for impairment losses amounted to GEL 57,488 thousand, GEL 49,705 thousand and GEL 54,992 thousand, respectively.

Valuation of financial instruments

As described in Note 29, the Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 29 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Property and equipment

Certain property (land and buildings) are measured at revalued amounts. The date of the latest appraisal was December 31, 2011. The next revaluation is preliminary scheduled as at December 31, 2012. The carrying value of revalued property amounted to GEL 51,900 thousand, GEL 54,130 thousand and GEL 49,948 thousand as at December 31, 2011 and 2010 and January 1, 2010, respectively.

Items of property and equipment are stated at revalued amounts or cost, less accumulated depreciation and less accumulated impairment losses. The estimation of the useful life of an item of property and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, the management considers expected usage, estimated technical obsolescence, physical wear and tear, and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Repossessed assets

Repossessed assets representing land and buildings are measured at revalued amounts. The date of the latest appraisal was December 31, 2011. The carrying value of revalued repossessed assets amounted to GEL 15,818 thousand, GEL 14,185 thousand and GEL 14,593 thousand as at December 31, 2011 and 2010 and January 1, 2010, respectively.

Recoverability of deferred tax assets

The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary; because it is more likely than not that the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to GEL 2,460 thousand, GEL nil thousand and GEL nil thousand as at December 31, 2011 and 2010 and January 1, 2010, respectively.

Investment property carried at revalued amounts

Land included in the Investment property is measured at revalued amounts. The date of the latest appraisal was December 31, 2011. The next revaluation is preliminary scheduled as at December 31, 2012. The carrying value of revalued property amounted to GEL 12,328 thousand, GEL nil thousand and GEL nil thousand as at December 31, 2011 and 2010 and January 1, 2010, respectively.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

The Group has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Group's annual consolidated financial statement for the year ended December 31, 2011:

- IFRS 3(2008), "Business Combinations" / IAS 27, "Consolidated and Separate Financial Statements" — amendments resulting from May 2010 Annual Improvements to IFRSs: 1) transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; 2) clarification on measurement of non-controlling interests;
- IFRS 7, "Financial Instruments: Disclosures" — amendments resulting from May 2010 Annual Improvements to IFRSs giving clarification of disclosures and release of requirement for disclosure regarding restructured loans;
- IAS 24, "Related Party Disclosures" — (as revised in 2010) modifies the definition of a related party and simplifies disclosures for government-related entities.

The adoption of the new or revised standards did not have any effect on the financial position or performance of the Group, and all have been retrospectively applied in compliance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", unless otherwise noted below.

Amendments to IAS 24 – The disclosure exemptions introduced in IAS 24 (as revised in 2010) do not affect the Group because the Group is not a government-related entity.

3.1 New and revised IFRSs in issue but not yet effective

At the date of authorization of these consolidated financial statements, the following new standards and interpretations were in issue, but not yet effective, and which the Group has not early adopted:

- IFRS 7 "Financial Instruments: Disclosures" — amendments enhancing disclosures about transfers of financial assets [1];
- IFRS 9 "Financial Instruments" [2];
- IFRS 10 "Consolidated Financial Statements" [3];
- IFRS 11 "Joint Arrangements" [3];
- IFRS 12 "Disclosure of Interest in Other Entities" [3];
- IFRS 13 "Fair Value Measurement" [2];
- IAS 1 "Presentation of Financial Statements" — amendments to revise the way other comprehensive income is presented [4];
- IAS 12 "Income Taxes" — Limited scope amendment (recovery of underlying assets) [5];
- IAS 27 - reissued as IAS 27 "Separate Financial Statements" (as amended in May 2011) [3];
- IAS 28 - reissued as IAS 28 "Investments in Associates and Joint Ventures" (as amended in May 2011) [3].

[1] Effective for annual periods beginning on or after July 1, 2011, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.
[3] Each of the five standards becomes effective for annual periods beginning on or after January 1, 2013, with earlier application permitted if all the other standards in the 'package of five' are also early applied (except for IFRS 12 that can be applied earlier on its own).
[4] Effective for annual periods beginning on or after July 1, 2012, with early adoption permitted.
[5] Effective for annual periods beginning on or after January 1, 2012, with earlier application permitted.

Amendments to IFRS 7 – The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Retrospective application is required in accordance with IAS 8 with the exception that in the first year of application, an entity need not provide comparative information for the disclosures required by the amendments for periods beginning before July 1, 2011. The Group does not expect this amendment to have a material effect on its financial position or results of operations.

IFRS 9 – was issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39, "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Group management anticipates that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 10 Consolidated Financial Statements – replaces all of the guidance on control and consolidation in IAS 27 and SIC-12 by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (ie whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities).

Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 Joint Arrangements – replaces IAS 31 with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures (the 'jointly controlled assets' classification exists no more).

- In recognising their rights and obligations arising from the arrangement, the parties should no longer focus on the legal structure of the joint arrangement, but rather on how rights and obligations are shared by them.

- A joint operation gives parties to the arrangement direct rights to the assets and obligations for the liabilities. Thus, a joint operator recognises its interest based on its involvement in the joint operation (ie based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement. A party to a 'joint operation' recognises assets, liabilities, revenues and expenses arising from the arrangement.
- A joint venture gives the parties rights to the net assets or outcome (profit or loss) of the arrangement. Joint ventures are accounted for using the equity method in accordance with IAS 28 "Investments in Associates". Entities can no longer account for an interest in a joint venture using the proportionate consolidation method. A party to a 'joint venture' recognises an investment.

IFRS 12 Disclosure of Interests in Other Entities – requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

IAS 27 (2011) Separate Financial Statements – includes the provisions on separate financial statements that are left almost unchanged after the control provisions of IAS 27 have been replaced with the new IFRS 10.

IAS 28 (2011) Investments in Associates and Joint Ventures – now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

IFRS 13 Fair Value Measurement – aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements to use across IFRSs. The Standard:

- defines fair value;
- sets out in a single IFRS a framework for measuring fair value;
- requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for share-based payment transactions within the scope of IFRS 2 "Share-based Payment", leasing transactions within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

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

Amendments to IAS 1 Presentation of Financial Statements **–** revise the way other comprehensive income is presented.

The amendments to IAS 1:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft;
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified;
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

The Group does not expect this amendment to have a material effect on its financial position or results of operations.

Amendment to IAS 12 Income Taxes – provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale.

Retrospective application is required in accordance with IAS 8. The Group is considering the impact of the amendment on the consolidated financial statements and the timing of its application.

4. RESTATEMENTS

Restatements

In 2011 the Group's management determined that certain of its intangible assets have indefinite useful lives which had not been appropriately presented in the consolidated financial statements for the year ended December 31, 2010. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors," these consolidated financial statements have been restated as detailed in the following paragraph.

The effect of the adjustments made to the consolidated financial statements for the year ended December 31, 2010 is as follows:

Financial statement line item	As previously reported December 31, 2010/year ended December 31, 2010	Amount of adjustment	As restated December 31, 2010/ year ended December 31, 2010
Other assets	21,652	1,669	23,321
Deferred income tax liabilities	2,713	250	2,963
Operating expenses	(57,349)	717	(56,632)
Deferred income tax benefit	4,957	(108)	4,849
Retained earnings	13,520	1,419	14,939

5. NET INTEREST INCOME

	Year ended December 31, 2011	Year ended December 31, 2010
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired financial assets	14,341	8,655
- interest income on unimpaired financial assets	46,104	65,934
Total interest income	60,445	74,589
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	54,903	70,554
Interest on balances due from banks	864	765
Interest on investments held to maturity	4,678	3,270
Total interest income on financial assets recorded at amortized cost	60,445	74,589
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(27,655)	(35,763)
Total interest expense	(27,655)	(35,763)
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on subordinated debt	(2,026)	(2,194)
Interest on customer accounts	(19,855)	(27,322)
Interest on due to banks	(5,774)	(6,247)
Total interest expense on financial liabilities recorded at amortized cost	(27,655)	(35,763)
Net interest income before provision for impairment losses on interest bearing financial assets	**32,790**	**38,826**

6. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans to customers
December 31, 2009	54,992
Additional provisions recognized	35,540
Write-off of assets	(40,827)
December 31, 2010	**49,705**
Additional provisions recognized	12,313
Write-off of assets	(9,155)
Recoveries of assets previously written off	4,625
December 31, 2011	**57,488**

The movements in other provisions were as follows:

	Other Assets	Guarantees and other off-balance sheet commitments	Total
December 31, 2009	-	1,163	1,163
Additional provisions recognized/(recovery of provisions)	623	(532)	91
Write-off of assets	(623)	-	(623)
December 31, 2010	-	631	631
Additional provisions recognized/(recovery of provisions)	14,733	(417)	14,316
Write-off of assets	(14,754)	-	(14,754)
Recoveries of assets previously written off	21	-	21
December 31, 2011	**-**	**214**	**214**

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2011	Year ended December 31, 2010
Dealing, net	12,228	10,486
Translation differences, net	1,559	(1,273)
Total net gain on foreign exchange operations	**13,787**	**9,213**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2011	Year ended December 31, 2010
Fee and commission income:		
Plastic cards operations	2,616	2,619
Cash operations	1,758	1,769
Settlements	1,666	1,617
Documentary operations	1,323	1,595
Loan servicing fee	210	173
Foreign exchange operations	35	69
Other	664	923
Total fee and commission income	**8,272**	**8,765**
Fee and commission expense:		
Correspondent bank services	(2,768)	(2,597)
Cash operations	(77)	(85)
Documentary operations	(2)	(7)
Other	(10)	(31)
Total fee and commission expense	**(2,857)**	**(2,720)**

9. OTHER INCOME

Other income comprises:

	Year ended December 31, 2011	Year ended December 31, 2010
Fines and penalties received	1,714	1,816
Reimbursement of legal costs	406	530
Rent income	628	426
Gain on revaluation of land and buildings	348	393
Other	1,354	895
Total other income	**4,450**	**4,060**

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2011	Year ended December 31, 2010
Staff costs	28,209	27,178
Loss on revaluation of investment property	7,161	-
Depreciation and amortization	6,223	5,721
Professional services	4,107	5,018
Operating leases	3,407	4,027
Communications	1,870	2,047
Advertising costs	1,854	1,849
Utilities	1,832	1,798
Goodwil impairment expense	1,749	-
Insurance	1,348	807
Security expenses	1,102	942
Taxes, other than income tax	1,087	740
Charity and sponsorship expenses	730	770
Property and equipment maintenance	577	605
Loss on revaluation of land and buildings	480	-
Office supplies	374	574
Loss on disposal of property and equipment	342	139
Representative expense	323	299
Stationery	311	265
Business trip expenses	286	445
Production of plastic cards	202	108
Fines and penalties	48	7
Other expenses	2,960	3,293
Total operating expenses	**66,582**	**56,632**

11. INCOME TAXES

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of Georgia where the Group and its subsidiaries operate, which differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2011 and 2010 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 15% payable by corporate entities in Georgia on taxable profits (as defined) under tax law in that jurisdiction.

Temporary differences as at December 31, 2011 and 2010 comprise:

	December 31, 2011	**December 31, 2010** (restated)	**January 1, 2010** (restated)
Deferred tax assets/(liabilities) in relation to:			
Property and equipment, and intangible assets	(6,038)	(6,660)	(6,092)
Loans to customers	(228)	(3,497)	(3,169)
Provisions under guarantees and letters of credit	(411)	(308)	(228)
Investments in associates	(97)	(99)	(78)
Other assets	1,504	1,449	759
Other financial liabilities	20	46	46
Tax loss carryforward	7,710	6,106	1,183
Net deferred tax assets/(liabilities)	**2,460**	**(2,963)**	**(7,579)**

The effective tax rate reconciliation is as follows for the years ended December 31, 2011 and 2010:

	Year ended December 31, 2011	Year ended December 31, 2010
Loss before income tax	(36,781)	(33,982)
Tax at the statutory tax rate (15%)	(5,517)	(5,097)
Tax effect of permanent differences:		
Permanent difference	150	248
Income tax benefit	(5,367)	(4,849)
Current income tax expense	-	-
Deferred tax benefit:		
Deferred tax benefit recognized in the current year	(5,367)	(4,849)
Income tax benefit	**(5,367)**	**(4,849)**

Deferred income tax assets/(liabilities)	**2011**	**2010**
As at January 1 – deferred tax assets	-	-
As at January 1 – deferred tax liabilities	(2,963)	(7,579)
Changes in deferred income tax balances recognized in other comprehensive income	56	(233)
Change in deferred income tax balances recognized in consolidated profit or loss	5,367	4,849
As at December 31- deferred tax assets	**2,460**	**-**
As at December 31- deferred tax liabilities	**-**	**(2,963)**

12. CASH AND BALANCES WITH THE NATIONAL BANK OF GEORGIA (THE "NBG")

	December 31, 2011	December 31, 2010	January 1, 2010
Cash	41,823	33,687	40,374
Balances with the NBG	66,815	38,888	58,043
Total cash and balances with the NBG	**108,638**	**72,575**	**98,417**

The obligatory minimum reserve deposits with the NBG included in the balances with the NBG are restricted balances of GEL 52,114 thousand, GEL 24,651 thousand and GEL 14,433 thousand, respectively, as at December 31, 2011 and 2010 and January 1, 2010. The Group is required to maintain minimum reserve deposits with the NBG at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Cash and balances with the NBG	108,638	72,575	98,417
Due from banks (Note 31)	26,518	194,240	113,961
Less: minimum reserve deposits with the NBG	(52,114)	(24,651)	(14,433)
Total cash and cash equivalents	**83,042**	**242,164**	**197,945**

13. DUE FROM BANKS

Due from banks comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Time deposits	28,377	120,074	105,390
Correspondent accounts	4,561	77,873	9,304
Total due from banks	**32,938**	**197,947**	**114,694**

Included in due from banks is accrued interest in the amount of GEL 1 thousand, GEL 17 thousand and GEL 1 thousand as at December 31, 2011 and 2010 and January 1, 2010, respectively.

As at December 31, 2011 and 2010 and January 1, 2010 the Group had balances due from three, three and one bank, respectively, with individual exposure exceeding 10% of the Group's equity.

As at December 31, 2011 and 2010 and January 1, 2010 included in balances due from banks are guarantee deposits placed by the Group for its operations with plastic cards totaling GEL 6,420 thousand, GEL 3,707 thousand and GEL 35 thousand, respectively.

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Originated loans to customers	459,061	415,415	525,492
Accrued interest	6,625	12,944	12,847
Less: allowance for impairment losses	(57,488)	(49,705)	(54,992)
Total loans to customers	**408,198**	**378,654**	**483,347**

Movements in the allowance for impairment losses for the years ended December 31, 2011 and 2010 are disclosed in Note 6.

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Group:

	December 31, 2011	December 31, 2010	January 1, 2010
Loans collateralized by pledge of real estate	351,517	344,400	457,301
Loans collateralized by guarantees	34,813	25,279	22,017
Loans collateralized by pledge of cash	12,953	24,029	15,563
Loans collateralized by pledge of vehicles	6,271	6,772	9,092
Loans collateralized by pledge of equipment	6,156	5,806	5,987
Loans collateralized by pledge of inventories	5,191	4,970	63
Loans collateralized by pledge of corporate shares	-	1,113	217
Other collateral	262	290	-
Unsecured loans	48,523	15,700	28,099
Less: allowance for impairment losses	(57,488)	(49,705)	(54,992)
Total loans to customers	**408,198**	**378,654**	**483,347**

	December 31, 2011	December 31, 2010	January 1, 2010
Analysis by sector:			
Individuals	241,453	178,620	215,987
Trade and service	95,704	107,103	163,956
Manufacturing	24,953	29,363	35,913
Government institutions	22,330	-	1,204
Education	14,951	15,517	15,964
Construction	9,253	16,425	30,631
Mining and metallurgy	7,661	8,245	6,845
Energy	2,417	3,494	4,335
Agriculture	3,185	4,987	3,762
Transport and communication	699	7,263	10,439
Other	43,080	57,342	49,303
Less: allowance for impairment losses	(57,488)	(49,705)	(54,992)
Total loans to customers	**408,198**	**378,654**	**483,347**

During the years ended December 31, 2011 and 2010 and January 1, 2010 the Group received financial and non-financial assets by taking possession of collateral it held as security. As at December 31, 2011 and 2010 and January 1, 2010 such assets in amount of GEL 15,818 thousand, GEL 14,185 thousand and GEL 14,593 thousand, respectively, are included in other assets of the Group.

Loans to individuals comprise the following products:

	December 31, 2011	December 31, 2010	January 1, 2010
Mortgage loans	132,026	105,110	118,337
Car loans	4,337	4,379	81,697
Consumer loans	3,481	29,574	109
Other	101,609	39,557	15,844
Less: allowance for impairment losses	(10,485)	(10,302)	(20,174)
Total loans to individuals	**230,968**	**168,318**	**195,813**

As at December 31, 2011 and 2010 and January 1, 2010 the Group granted loans to two, four and five customers, totaling GEL 32,837 thousand, GEL 51,627 thousand GEL 53,028 thousand, respectively, which individually exceeded 10% of the Group's equity.

As at December 31, 2011 and 2010 and January 1, 2010 all loans are granted to companies operating in Georgia, which represents a significant geographical concentration in one region.

As at December 31, 2011 and 2010 and January 1, 2010 loans to customers included loans totaling GEL 81,369 thousand, GEL 85,994 thousand and GEL 97,383 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

The table below summarizes an analysis of loans to customers by impairment:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	75,796	(42,310)	33,486	98,881	(43,846)	55,035	106,847	(24,001)	82,846
Loans to customers collectively determined to be impaired	34,694	(15,178)	19,516	39,672	(5,859)	33,813	100,690	(30,991)	69,698
Unimpaired loans	355,196	-	355,196	289,806	-	289,806	330,802	-	330,803
Total	**465,686**	**(57,488)**	**408,198**	**428,359**	**(49,705)**	**378,654**	**538,339**	**(54,992)**	**483,347**

15. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Ownership interest	**Amount**	**Ownership interest**	**Amount**	**Ownership interest**	**Amount**
Terminal Complex Tbilisi LLC	50.00%	58	50.00%	58	50.00%	58
JSC Credit info Georgia	5.00%	54	5.00%	54	5.00%	54
JSC United Clearing Center	10.00%	54	10.00%	54	10.00%	54
Tbilisi Interbank Currency	0.00%	-	9.09%	40	8.33%	40
Total investments available-for-sale		**166**		**206**		**206**

The Group does not have control or significant influence over the activities of Terminal Complex Tbilisi LLC and classified investment in its equity as investment available-for-sale as at December 31, 2011, which reflects the management's intent to dispose these investment. The effect of accounting of this investment based on equity method of accounting would not have a material impact on the Group's consolidated financial statements.

16. INVESTMENTS HELD TO MATURITY

	December 31, 2011		December 31, 2010		January 1, 2010	
	Nominal annual interest rate	**Amount**	**Nominal annual interest rate**	**Amount**	**Nominal annual interest rate**	**Amount**
Deposit Certificates of the National Bank of Georgia	7%-10%	14,000	3%	9,353	3%	9,000
Government treasury bills of the Ministry of Finance of Georgia	7%-12%	16,689	5%-8%	39,240	5%-8%	33,843
Government treasury bonds of the Ministry of Finance of Georgia	10%-15%	19,000	0%	-	0 %	-
Less discount		(880)		(1,194)		(853)
Total investments held to maturity		**48,809**		**47,399**		**41,990**

Included in investments held to maturity is accrued interest in the amount of GEL 689 thousand, GEL 1,760 thousand and GEL 363 thousand as at December 31, 2011 and 2010 and January 1, 2010, respectively.

17. INVESTMENTS IN ASSOCIATES

The following enterprises were recorded in the consolidated financial statements using the equity method:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Ownership interest	**Carrying value**	**Ownership interest**	**Carrying value**	**Ownership interest**	**Carrying value**
JSC Georgian Card	26.45%	1,290	26.45%	1,302	42.03%	1,932
		1,290		**1,302**		**1,932**

The percentage held of the above associate represents both direct and indirect ownership of the Group. JSC Georgian Card is a clearing center.

Reconciliation of the investments in associates is as follows:

	Year ended December 31, 2011	Year ended December 31, 2010	Year ended January 1, 2010
As at January 1	1,302	1,932	1,588
Sale of investments	-	(767)	-
Share of profits of associates	(12)	137	344
As at December 31	**1,290**	**1,302**	**1,932**

Summarized financial information in respect of the Group's associates carried using equity method investees is set out below:

	December 31, 2011	December 31, 2010
Total assets	5,110	5,288
Total liabilities	662	580
Total revenue	5,247	5,335
Net (loss)/profit	(41)	326
Group's share of profits of associates	(12)	137

18. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Land and buildings	Office and computer equipment	Vehicles	Other	Construction in progress	Total
At initial/revalued cost						
January 1, 2010	49,948	9,747	1,902	10,885	1,948	74,430
Additions	2	1,157	120	439	2,251	3,969
Revaluation	542	-	-	-	-	542
Transfers	4,818	987	-	1,689	(3,759)	3,735
Disposals	(1,180)	(322)	(831)	(821)	-	(3,154)
December 31, 2010	54,130	11,569	1,191	12,192	440	79,522
Additions	72	775	95	321	227	1,490
Revaluation	(2,098)	-	-	-	-	(2,098)
Transfers	-	-	-	288	(288)	-
Disposals	(204)	(838)	(112)	(1,228)	-	(2,382)
December 31, 2011	51,900	11,506	1,174	11,573	379	76,532
Accumulated depreciation and impairment						
January 1, 2010	-	3,570	1,172	4,827	-	9,569
Depreciation charge	1,419	1,556	272	2,096	-	5,343
Eliminated on revaluation	(1,409)	-	-	-	-	(1,409)
Eliminated on disposals	(10)	(282)	(802)	(765)	-	(1,859)
December 31, 2010	-	4,844	642	6,158	-	11,644
Depreciation charge	1,594	1,717	230	2,093	-	5,634
Eliminated on revaluation	(1,591)	-	-	-	-	(1,591)
Eliminated on disposals	(3)	(831)	(89)	(1,117)	-	(2,040)
December 31, 2011	-	5,730	783	7,134	-	13,647
Net book value						
As at December 31, 2011	**51,900**	**5,776**	**391**	**4,439**	**379**	**62,885**
As at December 31, 2010	**54,130**	**6,725**	**549**	**6,034**	**440**	**67,878**

As at December 31, 2011 and 2010 and January 1, 2010 included in property and equipment were fully depreciated assets totaling GEL 1,195 thousand, GEL 1,311 thousand and GEL 208 thousand, respectively.

As at December 31, 2011 and 2010 and January 1, 2010 land and buildings owned by the Group were revalued to market prices according to the opinion of the independent appraiser. As a result, carrying value of these buildings amounted to GEL 51,900 thousand, GEL 54,130 thousand and GEL 49,948 thousand, respectively. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), direct sales comparison method (comparative approach). For the estimation of the final value, following weights were assigned to the results obtained using different approaches: discounted cash flow method – 40% and direct sales comparison approach – 60%, depending on the degree to which the estimated met the following characteristics: reliability and completeness of the information, specifics of the revalued property, and other.

19. INVESTMENT PROPERTY

Investment property comprises:

	Year ended December 31, 2011	Year ended December 31, 2010	Year ended January 1, 2010
Cost			
As at January 1	-	-	-
Acquisitions through business combinations	19,489	-	-
Loss on property revaluation	(7,161)	-	-
As at December 31	12,328	-	-
Accumulated depreciation			
As at January 1	326	-	-
Depreciation charge	514	-	-
Eliminated on revaluation	(840)	-	-
As at December 31	-	-	-
Net book value	**12,328**	**-**	**-**

Included into operating lease income is investment property rental income for the year ended December 31, 2011 and 2010 and January 1, 2010 totaled GEL 44 thousand, GEL nil thousand and GEL nil thousand, respectively.

The fair value of the Group's investment property at December 31, 2011 have been arrived at on the basis of a valuation carried out at that date by independent valuator that are not related to the Group. Independent valuator has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. As at December 31, 2011 and 2010 and January 1, 2010 the fair value of investment property amounted to GEL 12,328 thousand, GEL nil thousand and GEL nil thousand, respectively.

20. OTHER ASSETS

Other assets comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Other financial assets			
Accounts receivable	175	800	1,708
Other non-financial assets			
Repossessed assets	15,818	14,185	14,593
Intangible assets	4,360	3,953	3,061
Prepaid expenses	1,667	1,964	1,793
Prepayments for property and equipment	1,599	1,834	3,140
Tax settlements, other than income tax	804	515	405
Other	315	70	74
	24,563	22,521	23,066
Total other assets	**24,738**	**23,321**	**24,774**

Repossessed assets as at December 31, 2011 and 2010 and January 1, 2010 include land and buildings in the amount of GEL 15,818 thousand, GEL 14,185 thousand and GEL 14,593 thousand, respectively, which are measured at revalued amounts. The repossessed assets have been revalued by independent appraiser as at December 31, 2011 and 2010 and January 1, 2010. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), direct sales comparison method (comparative approach). For the estimation of the final value, following weights were assigned to the results obtained using different approaches: discounted cash flow method – 40% and direct sales comparison approach – 60%, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifics of the revalued property, and other.

	Intangible assets (restated)
At cost	
January 1, 2010	3,467
Additions	1,231
Transfers	39
Disposals	(665)
December 31, 2010	4,072
Additions	996
Transfers	-
Disposals	(366)
December 31, 2011	4,702
Accumulated amortisation	
January 1, 2010	406
Charge for the year	378

	Intangible assets (restated)
Eliminated on disposals	(665)
December 31, 2010	119
Charge for the year	589
Eliminated on disposals	(366)
December 31, 2011	342
Net book value	
December 31, 2011	**4,360**
December 31, 2010	**3,953**
December 31, 2009	**3,061**

21. ASSETS CLASSIFIED AS HELD FOR SALE

	December 31, 2011	December 31, 2010	January 1, 2010
Assets classified as held for sale	-	21,197	-
Liabilities directly associated with assets held for sale	-	11,899	-

The major classes of assets and liabilities of Georgian Mill Company LLC at the end of the reporting period are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Property and equipment	-	19,267	-
Inventories	-	314	-
Trade and other receivables	-	1,607	-
Cash	-	9	-
Assets classified as held for sale	-	21,197	-
Long-term loan	-	11,758	-
Trade and other payables	-	141	-
Liabilities associated with assets classified as held for sale	-	11,899	-
Net assets classified as held for sale	**-**	**9,298**	**-**

In July 2010 the Bank established 100% subsidiary Georgian Mill Company LLC (the "Company") for the purpose of repossessing and then selling one of its former borrower Begi LLC, who has become insolvent. The Company is operating in agricultural sector. The management of the Bank initiated a plan and implemented actions to locate a buyer to complete the sale and have received indicative offers during 2011 that have not been put into action. As at December 31, 2011 the management of the Bank has not located new buyer for the Company and reflected it as consolidated subsidiatry in the Group's consolidated financial statements for the year ended December 31, 2011.

The combined results of the discontinued operations included in the consolidated income statement are set out below.

	December 31, 2011	December 31, 2010	January 1, 2010
Loss for the year from discontinued operations			
Revenue	-	207	-
Operating expenses	-	(1,340)	-
Loss for the year from discontinued operations	-	**(1,133)**	-
Loss on re-measurement to fair value less costs to sell	-	(728)	-
Loss for the year	-	**(1,861)**	-
Cash flows from discontinued operations			
Net cash inflows from operating activities	-	9	-
Net cash inflows from investing activities	-	-	-
Net cash outflows from financing activities	-	-	-
Net cash inflows	**-**	**9**	**-**

22. DUE TO BANKS

Due to banks comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Correspondent accounts of other banks	63	77	2,504
Deposits from international financial institutions and banks	188,014	-	-
Loans from international financial institutions and banks	31,561	150,640	194,492
Loan from the Ministry of Finance of Georgia	1,441	1,835	2,045
Loans from the Ministry of Education of Georgia	35	36	37
Total due to banks	**221,114**	**152,588**	**199,078**

As at December 31, 2011 and 2010 and January 1, 2010 accrued interest expenses included in due to banks amounted to GEL 2,820 thousand, GEL 2,151 thousand and GEL 2,477 thousand, respectively.

As at December 31, 2011 and 2010 and January 1, 2010 included in due to banks are GEL 141,650 thousand, GEL 152, 033 thousand and GEL 193,382 thousand (64%, 97% and 97% of total balances dues to banks), respectively, that were due to five, three and four banks, respectively, which represents a significant concentration.

The Group is obligated to comply with financial covenants in relation to certain balances due to banks disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. During the year ended December 31, 2011 the Bank has breached the following ratios set by International Finance Corporation (the “IFC”) – Fixed Assets plus Equity Investment Ratio. The Bank has obtained a waiver letter from the IFC for this financial covenant. As at December 31, 2011 balances due to the IFC amounted to GEL 28,154 thousand.

23. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Time deposits	189,682	283,233	244,629
Repayable on demand	147,944	203,361	209,134
Total customer accounts	**337,626**	**486,594**	**453,763**

As at December 31, 2011 and 2010 and January 1, 2010 accrued interest expenses included in customer accounts amounted to GEL 3,113 thousand, GEL 4,989 thousand and GEL 4,963 thousand, respectively.

As at December 31, 2011 and 2010 and January 1, 2010 customer accounts totaling GEL 2,052 thousand, GEL 527 thousand and GEL nil thousand, respectively, were held as security against letters of credit and other transaction related contingent obligations issued by the Group.

As at December 31, 2011 and 2010 and January 1, 2010 customer accounts totaling GEL 1,141 thousand, GEL 2,596 thousand and GEL 13,986 thousand, respectively, were held as security against guarantees issued by the Group.

As at December 31, 2011 and 2010 and January 1, 2010 customer accounts totaling GEL 57,777 thousand, GEL 129,681 thousand and GEL 101,386 thousand (17%, 27% and 22% of total customer accounts), respectively, were due to ten, eleven and nine customers, which represents a significant concentration.

	December 31, 2011	December 31, 2010	January 1, 2010
Analysis by economic sector/customer type:			
Individuals	200,710	257,280	242,917
Trade and services	44,599	38,225	30,571
Manufacture	16,617	-	-
Transport and communication	16,334	86,505	6,153
Construction	8,671	5,078	9,791
Education	7,626	6,223	5,858
Finance sector	5,942	11,380	8,092
Insurance	3,699	10,785	4,788
Budget entities	2,761	1,457	1,725
Mining	1,895	13,671	3,082
Health sector	1,307	9,936	7,020
Energy	1,154	6,887	64,701
Agriculture	796	334	3,012
Charity funds	-	1,788	25,263
Other	25,515	37,045	40,790
Total customer accounts	**337,626**	**486,594**	**453,763**

24. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Other financial liabilities:			
Accounts payable	4,879	3,924	4,289
Other non-financial liabilities:			
Taxes payable, other than income tax	404	95	104
Other	760	8	5
Total other liabilities	**6,043**	**4,027**	**4,398**

25. SUBORDINATED DEBT

Subordinated debt comprises:

	Currency	Maturity date year	Nominal interest rate %	December 31, 2011	December 31, 2010	January 1, 2010
Subordinated debt from Societe Generale	USD	26-Mar-18	3.85%	13,502	14,327	13,628
Subordinated debt from Societe Generale	USD	29-May-15	5.21%	8,392	8,905	-
Subordinated debt from European Bank for Reconstruction and Development (the "EBRD")	USD	6-Jan-15	5.00%	8,504	9,028	8,586
Subordinated debt from the EBRD	USD	29-May-15	5.23%	-	-	8,468
Subordinated debt from the IFC	USD	30-Jun-14	5.48%	11,928	12,657	12,029
Total subordinated debt				**42,326**	**44,917**	**42,711**

As at December 31, 2011 and 2010 and January 1, 2010 accrued interest expenses included in subordinated debt amoumted to GEL 656 thousand, GEL 724 thousand and GEL 720 thousand, respectively.

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

The Group is obliged to comply with financial covenants in relation to subordinated debt disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. During the year ended December 31, 2011 the Bank has breached the following ratio set by the IFC – Fixed Assets plus Equity Investment Ratio. The Bank has obtained a waiver from IFC for this financial covenant. As at December 31, 2011 subordinated debt due to the IFC amounted to GEL 11,928 thousand.

26. SHARE CAPITAL

As at December 31, 2011 and 2010 and January 1, 2010 share capital authorized, issued and paid-in consisted of 569,832, 483,252 and 426,000 shares, respectively, with par value of GEL 100 each.

The Group's share capital comprises of the following number of shares:

Ordinary shares	**Share capital issued Pcs'000**
January 1, 2010	426,000
Issue of shares	57,252
Redemption of shares	-
December 31, 2010	483,252
Issue of shares	86,580
Redemption of shares	-
December 31, 2011	**569,832**

As at December 31, 2011 and 2010 and January 1, 2010, share premium totaling GEL 38,962 thousand, GEL 27,620 thousand and GEL 18,345 thousand, respectively, represents an excess of contributions received over the nominal value of shares issued.

27. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Provision for losses on contingent liabilities totaled GEL 214 thousand, GEL 631 thousand and GEL 1,163 thousand as at December 31, 2011 and 2010 and January 1, 2010, respectively.

As at December 31, 2011 and 2010 contingent liabilities comprise:

	December 31, 2011	**December 31, 2010**
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	68,571	20,086
Letters of credit and other transaction related contingent obligations	14,238	16,878
Commitments on loans and unused credit lines	38,393	30,364
Total contingent liabilities and credit commitments	**121,202**	**67,328**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

As at December 31, 2011 and 2010 and January 1, 2010 such unused credit lines come to GEL 38,393 thousand, GEL 30,364 thousand and GEL 52,703 thousand, respectively.

Capital commitments – As at December 31, 2011 and 2010 and January 1, 2010 the Group had no material capital commitements.

Operating lease commitments – No material rental commitments were outstanding as at December 31, 2011 and 2010 and January 1, 2010.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation of Georgia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in these consolidated financial statements.

Operating environment – The Group's principal business activities are within Georgia. Laws and regulations affecting the business environment in Georgia are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Georgia and its economy in general.

Laws and regulations affecting businesses in Georgia continue to change rapidly. Tax, currency and customs legislation within Georgia are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Georgia. The future economic direction of Georgia is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has negatively affected Georgia's financial and capital markets in 2009 and 2010 has receded and Georgia's economy returned to growth in 2011. However, significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Georgia's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Pensions and retirement plans – Employees receive pension benefits from the Government of Georgia in accordance with the laws and regulations of the country. As at December 31, 2011 and 2010 and January 1, 2010, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

28. TRANSACTIONS WITH RELATED PARTIES

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	December 31, 2011		December 31, 2010	
	Related party balances	Total category as per the consolidated financial statements caption	Related party balances	Total category as per the consolidated financial statements caption
Due from banks	13,939	32,938	192,897	197,947
- shareholders	13,939		192,897	
Loans to customers, gross	6,130	465,686	28,359	428,359
- key management personnel of the Group or its parent	919		2,259	
- other related parties	5,211		26,100	
Allowance for impairment losses on loans to customers	(618)	(57,488)	(12,963)	(49,705)
- key management personnel of the Group or its parent	(34)		(78)	-
- other related parties	(584)		(12,885)	-
Assets classified as held for sale	-	-	21,197	21,197
- subsidiaries	-		21,197	
Investments in associates	1,290	1,290	1,302	1,302
- associates	1,290		1,302	
Due to banks	179,669	221,114	50,382	152,588
- shareholders	179,669		50,382	
Customer accounts	6,420	337,626	22,492	486,594
- shareholders	2,673		4,051	-
- key management personnel of the Group or its parent	46		2,348	-
- associates	-		115	-
- other related parties	3,701		15,978	-
Provisions	-	214	12	631
- shareholders	-		2	-
- key management personnel of the Group or its parent	-		9	-
- other related parties	-		1	-
Other liabilities	2,427	6,043	2,311	4,027
-shareholders	2,427		811	
- key management personnel of the Group or its parent	-		1,500	
Subordinated debt	30,398	42,326	32,260	44,917
- shareholders	30,398		32,260	
Liabilities directly associated with assets classified as held for sale	-	-	11,899	11,899
- subsidiaries	-		11,899	
Guarantees issued and similar commitments	2,886	68,571	8,795	20,086
- shareholders	211		2,885	
- key management personnel of the Group or its parent	125		604	
- associates	-		1,131	
- other related parties	2,550		4,175	

The remuneration of Board of Directors and Supervisory Board of the Group management was as follows:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	2,446	28,209	3,812	27,178
Total	**2,446**	**28,209**	**3,812**	**27,178**

Included in the consolidated income statement for the years ended December 31, 2011 and 2010 are the following amounts which were recognized in transactions with related parties:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Interest income	1,169	60,445	4,715	74,589
- shareholders	-		-	
- key management personnel of the Group or its parent	145		301	
- associates	26		34	
- other related parties	998		4,380	
Interest expense	(1,211)	(27,655)	(2,254)	(35,763)
- shareholders	(757)		(649)	
- key management personnel of the Group or its parent	(30)		(239)	
- other related parties	(424)		(1,366)	
Provision for impairment losses on interest bearing assets	(3,196)	(12,313)	(8,847)	(35,540)
- shareholders	-		-	
- key management personnel of the Group or its parent	(4)		2	-
- associates	(3,026)		(3,348)	-
- other related parties	(166)		(5,501)	-
Fee and commission income	-	8,272	19	8,765
- shareholders	-		-	-
- associates	-		7	-
- other related parties	-		12	-
Operating expenses	(2,446)	(66,582)	(8,091)	(56,632)
- shareholders	-		(4,279)	
- key management personnel of the Group or its parent	(2,446)		(3,812)	-
Share of results from associate	(12)	(12)	137	137
- associates	(12)		137	

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale.

Assets for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

Loans and advances to banks

The fair value of loans and advances to banks has been estimated using the same valuation technique for financial instruments accounted for at fair value as described in the valuation techniques below.

Loans and advances to customers

Loans and advances to personal customers are made both at variable and at fixed rates. As there is no active secondary market in Georgia for such loans and advances, there is no reliable market value available for this portfolio.

(a) Variable rate – Management believes that carrying rate may be assumed to be fair value.
(b) Fixed rate – Certain of the loans secured are at a fixed rate. Fair value has been estimated by reference to the market rates available at the balance sheet date for similar loans of maturity equal to the remaining fixed period.

Financial investments – available for sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Except as detailed below, management of the Group considers that the fair value of financial assets and liabilities approximates their carrying value:

	December 31, 2011		December 31, 2010	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the NBG	108,638	108,638	72,575	72,575
Due from banks	32,938	32,938	197,947	197,947
Loans to customers	408,198	407,111	378,654	380,671
Investments available-for-sale	166	166	206	206
Investments held to maturity	48,809	49,000	47,399	51,276
Other financial assets	175	175	800	800
Due to banks	221,114	220,331	152,588	153,463
Customer accounts	337,626	338,308	486,594	520,601
Other financial liabilities	4,879	4,879	3,924	3,924
Subordinated debt	42,326	41,544	44,917	43,795

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBG in supervising the Group.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 25, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in consolidated statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy remains unchanged from 2010.

The following table analyzes the Group's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basle Committee:

	Year ended December 31, 2011	Year ended December 31, 2010
Movement in tier 1 capital:		
At 1 January	90,884	106,081
Issue of ordinary shares	20,000	15,000
Transfer of realized property revaluation	425	797
Net loss	(31,414)	(30,994)
At December 31	79,895	90,884

	December 31, 2011	December 31, 2010
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	56,983	48,325
Share premium	38,962	27,620
(Accumulated deficit)/retained earnings	(16,050)	14,939
Total qualifying tier 1 capital	79,895	90,884
Revaluation of property and equipment	15,232	15,976
Subordinated debt (restricted to 50% of Tier 1 capital)	39,948	44,917
Total regulatory capital	**135,075**	**151,777**
Capital Ratios:		
Tier 1 capital	12.37%	15.11%
Total capital	22.22%	26.85%

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

As at December 31, 2011 and 2010, the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

31. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to the following:

- Credit exposures;
- Liquidity risk;
- Market risk.

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processed are performed by the Credit Committees, Risk Management Department, and the Group's Management Board, and in case of applications over EUR 1,000 thousand, by Societe Generale Center Risk Management Division. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by a borrower, an industry sector and a product are approved semiannually by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee and Ris Management Department. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantee. However, a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum exposure of credit risk

The Groups maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

	Maximum exposure	
	December 31, 2010	December 31, 2009
Due from banks	32,938	197,947
Loans to customers	408,198	378,654
Investments available-for-sale	166	206
Investments held to maturity	48,809	47,399
Other financial assets	175	800
Guarantees issued and similar commitments	68,571	20,086
Letters of credit and other transaction related contingent obligations	14,238	16,878
Commitments on loans and unused credit lines	38,393	30,364

Off-balance sheet risk

The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Credit quality by classes of financial assets

As at December 31, 2011:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Collectively impaired	(Impairment allowance)	Total
Due from banks	32,938	-	-	-	-	32,938
Loans to customers	352,467	2,729	75,796	34,694	(57,488)	408,198
Investments available-for-sale	166	-	-	-	-	166
Investments held to maturity	48,809	-	-	-	-	48,809
Other financial assets	175	-	-	-	-	175

As at December 31, 2010:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Collectively impaired	(Impairment allowance)	Total
Due from banks	197,947	-	-	-	-	197,947
Loans to customers	271,268	18,538	98,881	39,672	(49,705)	378,654
Investments available-for-sale	206	-	-	-	-	206
Investments held to maturity	47,399	-	-	-	-	47,399
Other financial assets	800	-	-	-	-	800

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at December, 31 2011 and 2010 the balances with the NBG amounted to GEL 66,815 thousand and GEL 38,888 thousand, respectively. The credit rating of Georgia according to the international rating agencies corresponded to investment level BBB.

The following table details credit ratings of financial assets held by the Group as at December 31, 2011:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2011
Due from banks	-	536	20,541	11,861	-	-	32,938
Loans to customers	-	-	-	-	-	408,198	408,198
Investments available-for-sale	-	-	-	-	-	166	166
Investments held to maturity	-	-	-	-	48,809	-	48,809
Other financial assets	-	-	-	-	-	175	175

As at December 31, 2010:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2010
Due from banks	193,321	4,185	1	440	-	-	197,947
Loans to customers	-	-	-	-	-	378,654	378,654
Investments available-for-sale	-	-	-	-	-	206	206
Investments held to maturity	-	-	-	47,399	-	-	47,399
Other financial assets	-	-	-	-	-	800	800

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within Georgia. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Geographical concentration

The Assets and Liabilities Committee ("ALCO") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in Georgia.

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

	Georgia	Other non-OECD countries	OECD countries	December 31, 2011 Total
FINANCIAL ASSETS				
Cash and balances with the NBG	108,638	-	-	108,638
Due from banks	11,826	194	20,918	32,938
Loans to customers	408,198	-	-	408,198
Investments available-for-sale	166	-	-	166
Investments held to maturity	48,809	-	-	48,809
Other financial assets	175	-	-	175
TOTAL FINANCIAL ASSETS	577,812	194	20,918	598,924
FINANCIAL LIABILITIES				
Due to banks	32,902	-	188,212	221,114
Customer accounts	327,514	3,685	6,427	337,626
Other financial liabilities	4,879	-	-	4,879
Subordinated debt	-	-	42,326	42,326
TOTAL FINANCIAL LIABILITIES	365,295	3,685	236,965	605,945
NET POSITION	**212,517**	**(3,491)**	**(216,047)**	

	Georgia	Other non-OECD countries	OECD countries	December 31, 2010 Total
FINANCIAL ASSETS				
Cash and balances with the NBG	72,575	-	-	72,575
Due from banks	659	37	197,251	197,947
Loans to customers	378,654	-	-	378,654
Investments available-for-sale	206	-	-	206
Investments held to maturity	47,399	-	-	47,399
Other financial assets	800	-	-	800
TOTAL FINANCIAL ASSETS	500,293	37	197,251	697,581
FINANCIAL LIABILITIES				
Due to banks	774	-	151,814	152,588
Customer accounts	462,367	15,181	9,046	486,594
Other financial liabilities	3,924	-	-	3,924
Subordinated debt	-	-	44,917	44,917
TOTAL FINANCIAL LIABILITIES	467,065	15,181	205,777	688,023
NET POSITION	**33,228**	**(15,144)**	**(8,526)**	

Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

The table below shows the carrying amount of renegotiated financial assets, by class:

Financial asset class	**December 31, 2011**	**December 31, 2010**
Loans to customers	85,994	117,232

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within Georgia. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Committee ("ALCO") controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, that are not derivatives, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Group will be liable to redeem the liability;

(b) term to maturity of financial liabilities, that are derivatives, calculated for non-discounted cash flows on financial liabilities on the earliest date, when the Group will be liable to redeem the liability; and

(c) estimated term till maturity of financial assets, that are not derivatives, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Group expects that cash flows will be received in the different time.

	2011			**2010**		
	GEL	**USD**	**Other currency**	**GEL**	**USD**	**Other currency**
ASSETS						
Due from banks	0.43%	0.24%	0.21%	0.53%	0.26%	0.25%
Loans to customers	17.68%	12.49%	14.15%	18.77%	14.45%	14.80%
Investments held to maturity	10%	-	-	11.49%	-	-
LIABILITIES						
Due to banks	-	2.89%	-	-	3.03%	-
Customer accounts						
- Time deposits	9.87%	8.94%	7.95%	11.19%	10.15%	9.24%
- Repayable on demand	2.20%	3.54%	3.37%	1.71%	4.25%	4.14%
Subordinated debt	-	4.71%	-	-	4.35%	-

An analysis of the liquidity by classes of financial assets and financial liabilities, and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2011 Total
FINANCIAL ASSETS						
Cash and balances with the NBG	66,801	-	-	-	-	66,801
Due from banks	29,480	-	3,458	-	-	32,938
Loans to customers	35,615	20,735	61,235	212,481	78,132	408,198
Investments held to maturity	-	5,163	28,928	14,718	-	48,809
Total interest bearing financial assets	131,896	25,898	93,621	227,199	78,132	556,746
Cash and balances with the NBG	41,837	-	-	-	-	41,837
Investments available-for-sale	-	-	58	-	108	166
Other financial assets	175	-	-	-	-	175
Total non-interest bearing financial assets	42,012	-	58	-	108	42,178
TOTAL FINANCIAL ASSETS	173,908	25,898	93,679	227,199	78,240	598,924
FINANCIAL LIABILITIES						
Due to banks	115,411	19,150	8,300	53,912	24,341	221,114
Customer accounts	93,875	18,126	106,773	99,070	580	318,424
Subordinated debt	15,056	924	4,160	22,186	-	42,326
Total interest bearing financial liabilities	224,342	38,200	119,233	175,168	24,921	581,864
Customer accounts	9,131	341	1,536	8,194	-	19,202
Other financial liabilities	-	4,879	-	-	-	4,879
Total non-interest bearing financial liabilities	9,131	5,220	1,536	8,194	-	24,081
TOTAL FINANCIAL LIABILITIES	233,473	43,420	120,769	183,362	24,921	605,945
Interest sensitivity gap	(92,446)	(12,302)	(25,612)	52,031	53,211	
Cumulative interest sensitivity gap	**(92,446)**	**(104,748)**	**(130,360)**	**(78,329)**	**(25,118)**	
Liquidity gap	(59,565)	(17,522)	(27,090)	43,837	53,319	
Cumulative liquidity gap	**(59,565)**	**(77,087)**	**(104,177)**	**(60,340)**	**(7,021)**	

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2010 Total
FINANCIAL ASSETS						
Due from banks	122,168	-	-	-	-	122,168
Loans to customers	35,934	26,376	60,238	201,202	54,904	378,654
Investments held to maturity	8,704	14,167	20,007	4,521	-	47,399
Total interest bearing financial assets	166,806	40,543	80,245	205,723	54,904	548,221
Cash and balances with the NBG	72,575	-	-	-	-	72,575
Due from banks	75,779	-	-	-	-	75,779
Investments available-for-sale	-	-	58	-	148	206
Other financial assets	800	-	-	-	-	800
Total non-interest bearing financial assets	149,154	-	58	-	148	149,360
TOTAL FINANCIAL ASSETS	315,960	40,543	80,303	205,723	55,052	697,581
FINANCIAL LIABILITIES						
Due to banks	1,054	41,394	21,387	61,312	27,441	152,588
Customer accounts	93,527	35,622	123,981	184,985	590	438,705
Subordinated debt	-	-	-	30,735	14,182	44,917
Total interest bearing financial liabilities	94,581	77,016	145,368	277,032	42,213	636,210
Customer accounts	13,188	1,176	5,294	28,231	-	47,889
Other financial liabilities	2,424	1,500	-	-	-	3,924
Total non-interest bearing financial liabilities	15,612	2,676	5,294	28,231	-	51,813
TOTAL FINANCIAL LIABILITIES	110,193	79,692	150,662	305,263	42,213	688,023
Interest sensitivity gap	72,225	(36,473)	(65,123)	(71,309)	12,691	
Cumulative interest sensitivity gap	**72,225**	**35,752**	**(29,371)**	**(100,680)**	**(87,989)**	
Liquidity gap	205,767	(39,149)	(70,359)	(99,540)	12,839	
Cumulative liquidity gap	**205,767**	**166,618**	**96,259**	**(3,281)**	**9,558**	

An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group. The amounts disclosed in these tables do not correspond to the amounts recorded in the consolidated statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognised in the consolidated statement of financial position under the effective interest rate method.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2010 Total
FINANCIAL LIABILITIES							
Due to banks	2.89%	115,890	19,837	10,550	60,016	27,505	233,798
Customer accounts	4.49%	95,066	20,647	116,041	112,492	710	344,956
Subordinated debt	4.41%	15,209	1221	5,306	25,081	-	46,817
Total interest bearing financial liabilities		226,165	41,705	131,897	197,589	28,215	625,571
Customer accounts		9,131	341	1,536	8,194	-	19,202
Other financial liabilities		-	4,879	-	-	-	4,879
TOTAL FINANCIAL LIABILITIES		**235,296**	**46,925**	**133,433**	**205,783**	**28,215**	**649,652**

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2010 Total
FINANCIAL LIABILITIES							
Due to banks	3.03%	1,438	42,157	23,882	72,033	34,071	173,581
Customer accounts	6.74%	95,991	39,499	139,629	235,016	908	511,043
Subordinated debt	4.35%	163	326	1,465	38,551	19,117	59,622
Total interest bearing financial liabilities		97,592	81,982	164,976	345,600	54,096	744,246
Customer accounts		13,188	1,176	5,294	28,231	-	47,889
Other financial liabilities		2,424	1,500	-	-	-	3,924
TOTAL FINANCIAL LIABILITIES		**113,204**	**84,658**	**170,270**	**373,831**	**54,096**	**796,059**

Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed.

The Group is exposed to interest rate risks as the Group borrows funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALCO also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Supervision conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate sensitivity

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Financial Supervision conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on loss before tax based on asset values as at December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
Financial assets:				
Due from banks	659	(659)	2,334	(2,334)
Loans to customers	8,186	(8,186)	9,682	(9,682)
Investments held to maturity	976	(976)	796	(796)
Financial liabilities:				
Due to banks	(4,191)	4,191	(3,545)	3,545
Customer accounts	(6,755)	6,755	(8,108)	8,108
Subordinated debt	(847)	847	(892)	892
Net impact on loss before tax	**(1,972)**	**1,972**	**267**	**(267)**

Impact on equity:

	December 31, 2011		December 31, 2010	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
Financial assets:				
Due from banks	560	(560)	1,984	(1,984)
Loans to customers	6,958	(6,958)	8,230	(8,230)
Investments held to maturity	830	(830)	677	(677)
Financial liabilities:				
Due to banks	(3,563)	3,563	(3,013)	3,013
Customer accounts	(5,742)	5,742	(6,892)	6,892
Subordinated debt	(720)	720	(758)	758
Net impact on equity	**(1,677)**	**1,677**	**228**	**(228)**

Currency risk

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

The ALCO controls currency risk by management of the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimise losses from significant currency rates fluctuations toward Georgian Lari. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the NBG and Societe Generale.

The Group's open positions by the major currencies in which it holds the assets and liabilities are presented below:

	GEL	**USD** USD 1 = GEL 1.6703	**EUR** EUR 1 = GEL 2.1614	**Other currency**	**December 31, 2011 Total**
FINANCIAL ASSETS					
Cash and balances with the NBG	41,980	52,154	13,120	1,384	108,638
Due from banks	10,474	17,211	2,014	3,239	32,938
Loans to customers	81,105	307,169	18,352	1,572	408,198
Investments available-for-sale	166	-	-	-	166
Investments held to maturity	48,809	-	-	-	48,809
Other financial assets	175	-	-	-	175
TOTAL FINANCIAL ASSETS	182,709	376,534	33,486	6,195	598,924
FINANCIAL LIABILITIES					
Due to banks	36	199,463	21,615	-	221,114
Customer accounts	112,451	164,789	52,670	7,716	337,626
Other financial liabilities	4,879	-	-	-	4,879
Subordinated debt	-	42,326	-	-	42,326
TOTAL FINANCIAL LIABILITIES	117,366	406,578	74,285	7,716	605,945
OPEN BALANCE SHEET POSITION	**65,343**	**(30,044)**	**(40,799)**	**(1,521)**	

	GEL	**USD** USD 1 = GEL 1.7728	**EUR** EUR 1 = GEL 2.3500	**Other currency**	**December 31, 2010 Total**
FINANCIAL ASSETS					
Cash and balances with the NBG	33,009	31,636	7,134	796	72,575
Due from banks	186	93,282	25,064	79,415	197,947
Loans to customers	80,509	254,850	41,887	1,408	378,654
Investments available-for-sale	206	-	-	-	206
Investments held to maturity	47,399	-	-	-	47,399
Other financial assets	487	285	28	-	800
TOTAL FINANCIAL ASSETS	161,796	380,053	74,113	81,619	697,581

	GEL	USD USD 1 = GEL 1.7728	EUR EUR 1 = GEL 2.3500	Other currency	December 31, 2010 Total
FINANCIAL LIABILITIES					
Due to banks	33	152,554	1	-	152,588
Customer accounts	96,363	230,237	78,668	81,326	486,594
Other financial liabilities	2,538	242	1,144	-	3,924
Subordinated debt	-	44,917	-	-	44,917
TOTAL FINANCIAL LIABILITIES	98,934	427,950	79,813	81,326	688,023
OPEN BALANCE SHEET POSITION	**62,862**	**(47,897)**	**(5,700)**	**293**	

Currency risk sensitivity

The following table details the Group's sensitivity to a 5% increase and decrease in the USD against the GEL. 5% is the sensitivity rate used when reporting foreign currency risk internally to the key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates.

Impact on net profit and equity based on asset values as at December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	GEL/USD +5%	**GEL/USD -5%**	**GEL/USD +5%**	**GEL/USD -5%**
Impact on profit or loss before tax	1,126	(1,126)	1,124	(1,124)
Impact on equity	957	(957)	955	(955)

Limitations of sensitivity analysis

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

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margins and collateral requirements. With respect to undrawn loan commitments the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

32. SUBSEQUENT EVENTS

On February 17, 2012 the Bank's shareholders made a decision to increase the authorised share capital of the Bank through issuance of 190,476 ordinary shares with a nominal value of GEL 100 per share. The shares were issued on March 30, 2012 and purchased by Societe Generale for GEL 105 per share.