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JOINT STOCK COMPANY BTA BANK

Financial Statements
For the Year Ended December 31, 2011

Audit. Tax. Consulting. Financial Advisory.

JOINT STOCK COMPANY BTA BANK

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JOINT STOCK COMPANY BTA BANK

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

Management is responsible for the preparation of the financial statements that present fairly the financial position of JSC BTA Bank (the "Bank") 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 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 Bank's financial position and financial performance; and
- Making an assessment of the Bank'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 Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and that enable the management to ensure that the financial statements of the Bank 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 Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended December 31, 2011 were authorized for issue on May 4, 2012 by the Management Board.

On behalf of the Management Board:

General Director
Kairat Kenzhegarin

May 4, 2012
Tbilisi, Georgia

Chief Accountant
Natalia Modrekelidze

May 4, 2012
Tbilisi, Georgia

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INDEPENDENT AUDITORS' REPORT

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

Report on the financial statements

We have audited the accompanying financial statements of Joint Stock Company BTA Bank (the "Bank"), which comprise the statement of financial position as at December 31, 2011, the income statement, the statements of other 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 financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank 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.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 29 to these financial statements which disclose a significant concentration of the Bank's financing activities with related parties.

Other matter

The financial statements of the Bank as at December 31, 2010 and for the year then ended were audited by another auditor, who expressed a modified opinion on those statements on May 13, 2011.

Deloitte & Touche

May 4, 2012
Tbilisi, Georgia

JOINT STOCK COMPANY BTA BANK

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
Interest income	5, 29	12,144	12,405
Interest expense	5, 29	(6,393)	(7,725)
NET INTEREST INCOME BEFORE RECOVERY OF PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		5,751	4,680
Recovery of provision for impairment losses on interest bearing assets	6	2,606	3,673
NET INTEREST INCOME		8,357	8,353
Net gain on foreign exchange operations	7	986	1,024
Fee and commission income	8	1,252	1,224
Fee and commission expense	8	(190)	(285)
Provision for impairment losses on other operations	6	-	(101)
Other income	9	1,639	529
NET NON-INTEREST INCOME		3,687	2,391
OPERATING INCOME		12,044	10,744
OPERATING EXPENSES	10, 29	(11,510)	(11,921)
PROFIT/(LOSS) BEFORE INCOME TAX		534	(1,177)
Income tax expense	11	(53)	(521)
PROFIT/(LOSS) FOR THE PERIOD		481	(1,698)

On behalf of the Management Board:

General Director
Kairat Kenzhegarin

May 4, 2012
Tbilisi, Georgia

Chief Accountant
Natalia Modrekelidze

May 4, 2012
Tbilisi, Georgia

The notes on pages 10-58 form an integral part of these financial statements.

JOINT STOCK COMPANY BTA BANK

STATEMENT OF OTHER 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
NET PROFIT/(LOSS) FOR THE PERIOD		481	(1,698)
OTHER COMPREHENSIVE INCOME			
Net (loss)/gain resulting on revaluation of property	17	(833)	226
Income tax relating to components of other comprehensive income	11	125	(33)
OTHER COMPREHENSIVE (LOSS)/ INCOME AFTER INCOME TAX		(708)	193
TOTAL COMPREHENSIVE (LOSS)		**(227)**	**(1,505)**

On behalf of the Management Board:

General Director
Kairat Kenzhegarin

May 4, 2012
Tbilisi, Georgia

Chief Accountant
Natalia Modrekelidze

May 4, 2012
Tbilisi, Georgia

The notes on pages 10-58 form an integral part of these financial statements.

JOINT STOCK COMPANY BTA BANK

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

	Notes	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS:				
Cash and balances with the National Bank of Georgia	12	7,266	5,826	15,655
Due from banks	13, 29	5,024	15,230	3,561
Loans to customers	14, 29	71,804	48,221	82,427
Investments available-for-sale	15	-	40	40
Investments held to maturity	16	3,533	4,371	-
Property, plant and equipment	17	20,876	22,509	23,999
Investment property	18	2,645	2,034	2,194
Current income tax assets		198	198	198
Intangible assets	19	592	593	703
Other assets	20	2,083	1,544	2,986
		114,021	100,566	131,763
Assets held for sale:				
Repossessed assets	21	8,067	7,895	8,338
TOTAL ASSETS		122,088	108,461	140,101
LIABILITIES AND EQUITY				
LIABILITIES:				
Due to banks	22, 29	6,420	906	6
Due to customers	23, 29	27,236	19,947	58,321
Other borrowed funds	24, 29	49,047	48,038	41,530
Deferred income tax liabilities	11	1,614	1,686	1,132
Other liabilities	25	908	639	494
Subordinated debt	26, 29	2,528	2,683	2,551
Total liabilities		87,753	73,899	104,034
EQUITY:				
Share capital	27	30,000	30,000	30,000
Property revaluation reserve		4,757	5,579	5,500
(Accumulated deficit)/retained earnings		(422)	(1,017)	567
Total equity		34,335	34,562	36,067
TOTAL LIABILITIES AND EQUITY		**122,088**	**108,461**	**140,101**

On behalf of the Management Board:

General Director
Kairat Kenzhegarin

May 4, 2012
Tbilisi, Georgia

Chief Accountant
Natalia Modrekelidze

May 4, 2012
Tbilisi, Georgia

The notes on pages 10-58 form an integral part of these financial statements.

JOINT STOCK COMPANY BTA BANK

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

	Notes	Share capital	Property revaluation reserve	(Accumulated deficit)/retained earnings	Total equity
January 1, 2010		30,000	5,500	567	36,067
Other comprehensive income for the year, net of income tax		-	193	-	193
Loss for the year		-	-	(1,698)	(1,698)
Depreciation of revaluation reserve			(114)	114	-
December 31, 2010		30,000	5,579	(1,017)	34,562
Other comprehensive loss for the year, net of income tax		-	(708)		(708)
Profit for the year		-		481	481
Depreciation of revaluation reserve		-	(114)	114	-
December 31, 2011		30,000	4,757	(422)	34,335

On behalf of the Management Board:

General Director
Kairat Kenzhegarin

May 4, 2012
Tbilisi, Georgia

Chief Accountant
Natalia Modrekelidze

May 4, 2012
Tbilisi, Georgia

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JOINT STOCK COMPANY BTA BANK

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		12,248	15,272
Interest paid		(1,883)	(6,538)
Fees and commission received		1,252	1,224
Fees and commission paid		(190)	(285)
Net realized gains from dealing in foreign currencies		1,330	1,289
Other income received		816	429
Operating expenses paid		(11,044)	(8,832)
Cash flows from operating activities before changes in operating assets and liabilties		2,529	2,559
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the National Bank of Georgia		(102)	(284)
Due from banks		5,347	(5,320)
Loans to customers		(21,712)	34,339
Other assets		(223)	415
Increase/(decrease) in operating liabilities:			
Due to banks		5,512	900
Due to customers		6,994	(35,822)
Other liabilities		110	92
Cash outflow from operating activities before taxation		(1,545)	(3,121)
Income tax paid		-	-
Net cash outflow from operating activities		(1,545)	(3,121)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment, and intangible assets		(1,090)	(64)
Proceeds from sale of property, plant and equipment		1,051	56
Purchase of investment property		(1,196)	(810)
Proceeds from sales of investment property		566	1,070
Purchase of repossessed assets		(2,618)	
Proceeds from sale of repossessed assets		1,433	-
Purchase of investment held to maturity		(3,165)	(4,369)
Proceeds from sale investment held to maturity		4,070	-
Net cash outflow from investing activities		(949)	(4,117)

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 shareholders loans		-	3,709
Net cash (outflow)/inflow from financing activities		-	3,709
Effect of exchange rate changes on the balance of cash held in foreign currencies		(997)	(265)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3,491)	(3,794)
CASH AND CASH EQUIVALENTS, beginning of the year	12	12,843	16,637
CASH AND CASH EQUIVALENTS, end of the year	12	9,352	12,843

On behalf of the Management Board:

General Director
Kairat Kenzhegarin

May 4, 2012
Tbilisi, Georgia

Chief Accountant
Natalia Modrekelidze

May 4, 2012
Tbilisi, Georgia

The notes on pages 10-58 form an integral part of these financial statements.

(in thousands of Georgian Lari)

1. ORGANIZATION

JSC BTA Bank (the "Bank") is a joint-stock bank, which was incorporated in Georgia on January 27, 2000 as a joint stock company (JSC) following the merger of two Georgian banks: JSC Export-Import and JSC Discount Bank. The Bank was established under the name JSC Silk Road Bank. On May 30, 2003 the Bank acquired assets and liabilities of JSC EA Bank. On September 23, 2005 based on resolution number 2/5-98 of the Didube-Chugureti Regional Court, the shareholders of the Bank changed, and it was renamed JSC BTA Silk Road Bank. In 2008 based on order number 176-r of Large Payer Tax Inspection the Bank has changed its name to JSC BTA Bank.

The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under general license number 13/03/2001, #238. The Bank's primary business consists of commercial activities, dealing with foreign currencies, originating loans and guarantees, and deposit taking.

The registered office of the Bank is located at 2 Saarbrucken Square, Tbilisi, Georgia.

As at December 31, 2011 and 2010 the Bank had a head office and six service centres located in Tbilisi, one service centre in Poti and one branch in Batumi.

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

	December 31, 2011	December 31, 2010
First level shareholders:		
Silk Road Finance Group (Georgia)	50.99%	50.99%
JSC BTA Bank (Kazakhstan)	49.00%	49.00%
Individuals	0.01%	0.01%
Total	**100%**	**100%**
Ultimate controlling parties:		
Giorgi Ramishvili (resident of Georgia)	50.99%	50.99%
Government of Kazakhstan	49.00%	49.00%
Individuals	0.01%	0.01%
Total	**100%**	**100%**

These financial statements were authorized for issue on May 4, 2012 by the Management Board of the Bank.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated. These financial statements have been prepared on the historical cost basis except for buildings and other real estate, repossessed assets, investment property, and financial instruments that are measured at revalued amounts or fair value, 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 registered in Georgia maintains its accounting records in accordance with Georgian legislation and IFRS.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non–-current) is presented in Note 32.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies are set out below.

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 revenue – other

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. All other commissions are recognized when services are provided.

Recognition of rental income

The Bank's policy for recognition of income as a lessor is set out in the "leases" section of this footnote.

Financial instruments

The Bank recognizes financial assets and liabilities in its 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.

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.

Investments held to maturity

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

If the Bank 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 Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

Investments available-for-sale

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, (b) held to maturity.

The Bank has investments in unlisted shares that are not traded in an active market and are classified as AFS financial assets and stated at cost less any identified impairment losses at the end of each reporting period as the management considers that fair value can not be reliably measured.

Loans and receivables

Loans and other receivables 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 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 investment have been affected.

For the Bank's 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;
- 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 Bank'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 Bank 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.

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 investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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 Bank. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank 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 Bank are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as due to banks, due to customers, other borrowed funds, subordinated debt and 'other financial liabilities'.

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

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

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the 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 Bank are initially measured at their fair value and 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 accounts with the National Bank of Georgia (the "NBG") and due from banks with original maturity within 90 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.

The minimum reserve deposits with the NBG are subject to restrictions over their availability and therefore are not included in cash and cash equivalents.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Bank as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Property, plant and equipment

Initial cost of property, plant 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, plant and equipment, except for buildings and other real estate, are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the 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 buildings and other real estate 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 buildings and other real estate 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.

Depreciation is recognised so as to write off the cost or valuation of assets 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 and other real estate	2%
Furniture and fixtures	10%-25%
Computer and office equipment	25%
Vehicles	20%
Other	10%-25%

Depreciation on revalued buildings is charged to the 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. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

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, plant 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, plant 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.

Revalued amounts of 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 amortization 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	15%

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, and are recognised in profit or loss when the asset is derecognised.

Assets classified as held for sale

The Bank classifies a non-current assets (or disposal group) as held for sale if its carrying amount will be recovered principally trough a sale of transaction rather than though continuing use. For this to be the case the non-current assets (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal group) and its sale must be highly probable.

The sale qualifies are highly probable if the Bank's management is committed to a plan to sell the non-current assets (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current assets (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a complete sale within one year form the date of classification of the non-current assets (or disposal group) as held for sale.

The Bank measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less cost to sell. The Bank recognizes an impairment loss for the any initial or subsequent write-down of the asset (or disposal group) to fair value less cost to sell if the events or changes in circumstance indicate that their carrying amount may be impaired.

Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Bank 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 Bank 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.

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 property is property held to earn rentals. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property 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 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 Bank'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 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 property, plant and equipment, intangible assets and loans to customers, except where the Bank 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 such assets 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 laws and rates 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 Bank 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 taxes 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 has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the income statement.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank 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 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

Foreign currencies

In preparing the financial statements of the Bank, transactions in currencies other than the Bank'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 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.

(in thousands of Georgian Lari)

The exchange rates used by the Bank in the preparation of the 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 Bank 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 Bank a claim on these assets for both existing and future customer liabilities.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies the management is 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 have made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Invetsments held to maturity

The management has reviewed the Bank's invetsments held to maturity in the light of its capital maintenance and liquidity requirements and have confirmed the Bank's positive intention and ability to hold those assets to maturity. As at December 31, 2011 and 2010, and January 1, 2010 the carrying amount of the investments held to maturity were GEL 3,533 thousand, GEL 4,371 thousand and GEL nil 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 Bank regularly reviews its loans and receivables to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank 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 Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

For loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk charachteristics and collectively asseses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk charachteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk charachteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the year on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

The Bank 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 Bank 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 Bank 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 financial statements have been determined on the basis of existing economic and political conditions. The Bank 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 amount to GEL 78,428 thousand, GEL 57,532 thousand and GEL95,603 thousand, respectively, and allowance for impairment losses amounted to GEL 6,624 thousand, GEL 9,311 thousand and GEL 13,176 thousand, respectively.

Valuation of financial instruments

As described in Note 30, the Bank 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 30 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 managment believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Property, plant and equipment

Certain property (buildings) 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 16,372 thousand, GEL 17,573 thousand and GEL 17,706 thousand as at December 31, 2011 and 2010, and January 1, 2010, respectively.

Items of property, plant 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, plant 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.

Investment property carried at revalued amounts

Buildings included in the Investment property 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 2,645 thousand, GEL 2,034 thousand and GEL 2,194 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 Bank has adopted the following new or revised standards and interpretations issued by the IASB and the IFRIC of the IASB that became effective for the Bank's annual financial statement for the year ended December 31, 2011:

- IFRS 7 "Financial Instruments: Disclosures" — amendments resulting from May 2010 Annual Improvements to IFRSs give 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 Bank.

3.1 New and revised IFRSs in issue but not yet effective

At the date of authorization of these financial statements, the following new standards and interpretations were in issue, but not yet effective, and which the Bank 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 1 July 2011. The Bank does not expect this amendment to have a material effect on its financial position or results of operations.

IFRS 9

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 Bank's management plans that IFRS 9 will be adopted in the Bank's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will not have a material impact on amounts reported in respect of the Bank's financial assets and financial liabilities.

IFRS 13 Fair Value Measurement

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.

(in thousands of Georgian Lari)

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".

Amendments to IAS 1

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 other comprehensive income 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 other comprehensive income 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 other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

The Bank does not expect these amendments to have a material effect on its financial position or results of operations.

4. RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements as at December 31, 2010 and for the year then ended to conform to the presentation as at December 31, 2011 and for the year then ended as current year presentation provides better view of the financial position of the Bank.

Nature of reclassification	Amount	Statement of financial position/ Income Statement line as per the previous report	Statement of financial position/ Income Statement line as per the current report
To reclassify front fee from fee and commission income to interest income	133	Fee and commission income	Interest income
To reclassify loss on revaluation of repossessed assets from loss on revaluation of investment property	103	Operating expenses	Other income
To reclassify impairment of repossessed assets to operating expenses	692	Provision for impairment losses on other transactions	Operating expenses
To reclassify recovery of provision of unused vacations to operating expenses	20	Provision for impairment losses on other transactions	Operating expenses
To correctly present due from commercial banks	9,853	Cash and balances with the NBG	Due from banks
To correctly present obligatory reserve with the NBG	2,836	Due from banks	Cash and balances with the NBG

(in thousands of Georgian Lari)

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	8,311	11,999
- interest income on unimpaired financial assets	3,833	406
Total interest income	**12,144**	**12,405**
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	11,216	11,999
Interest on due from banks	483	280
Interest on investments held to maturity	445	126
Total interest income on financial assets recorded at amortized cost	**12,144**	**12,405**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on other borrowed funds	(4,834)	(5,692)
Interest on due to customers	(1,086)	(1,758)
Interest on due to banks	(245)	(34)
Interest on subordinated debt	(228)	(241)
Total interest expense	**(6,393)**	**(7,725)**
Net interest income before recovery of provision for impairment losses on interest bearing assets	**5,751**	**4,680**

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 1, 2010	13,176
(Recovery of provision)	(3,673)
Write-off of assets	(833)
Recoveries of assets previously written off	641
December 31, 2010	9,311
(Recovery of provision)	(2,606)
Write-off of assets	(675)
Recoveries of assets previously written off	594
December 31, 2011	6,624

(in thousands of Georgian Lari)

The movements in other provisions were as follows:

	Investment securities available for sale	Legal cases	Guarantees and commitments	Total
January 1, 2010	260	-	117	377
Additional provisions recognized	-	100	1	101
December 31, 2010	260	100	118	478
December 31, 2011	260	100	118	478

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	1,330	1,289
Translation differences, net	(344)	(265)
Total net gain on foreign exchange operations	**986**	**1,024**

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 card operations	403	262
Cash operations	285	154
Settlements	220	210
Money transfer operations	189	112
Guarantees	98	85
Foreign exchange operations	18	20
Fees on servicing utility payments	13	277
Depository operations	3	6
Other	23	98
Total fee and commission income	**1,252**	**1,224**
Fee and commission expense:		
Plastic card operations	(96)	(139)
Settlements	(47)	(38)
Cash operations	(31)	(92)
Other	(16)	(16)
Total fee and commission expense	**(190)**	**(285)**

(in thousands of Georgian Lari)

9. OTHER INCOME

Other income comprises:

	Year ended December 31, 2011	Year ended December 31, 2010
Gain on revaluation of leasehold property	527	-
Rental income	392	318
Refunded court fees	365	81
Gain from sale of property, plant and equipment	296	-
Dividend income from investment	54	-
Fines and penalties	2	23
Gain on revaluation of investment property	-	100
Other	3	7
Total other income	**1,639**	**529**

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2011	Year ended December 31, 2010
Staff costs	4,369	4,280
Depreciation and amortization	1,663	1,848
Rent expenses	883	844
Professional services	571	440
Taxes, other than income tax	350	309
Security expenses	346	270
Loss on sale of repossessed assets	436	1,101
Loss on revaluation of repossessed assets	370	692
Advertising costs	306	266
Legal services	294	185
Postal expenses	273	312
Fines and penalties	261	4
Utilities	255	255
Production of plastic cards	185	131
Representative expenses	105	18
Business trip expenses	72	52
Office supplies	67	47
Repairs and maintenance	55	89
Training	54	3
Stationary	39	48
Insurance	33	17
Loss on revaluation of investment property	19	-
Other expenses	504	710
Total operating expenses	**11,510**	**11,921**

(in thousands of Georgian Lari)

11. INCOME TAXES

The Bank 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, which differ from IFRS.

The Bank 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, and January 1, 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 under tax law of Georgia.

Temporary differences as at December 31, 2011 and 2010, and January 1, 2010 comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets/liabilities in relation to:			
Property, plant and equipment, and intangible assets	(20,976)	(22,040)	(23,380)
Loans to customers	483	360	6,627
Investment property	22	-	-
Repossessed assets	1,235	773	-
Other liabilities	302	187	107
Other assets	(172)	-	-
Total taxable temporary differences	(19,106)	(20,720)	(16,646)
Net deferred tax liability at the statutory tax rate (15%)	(2,866)	(3,108)	(2,497)
Tax loss carryforward	1,252	1,422	1,365
Net deferred tax liabilities	**(1,614)**	**(1,686)**	**(1,132)**

	Year ended December 31, 2011	Year ended December 31, 2010	Year ended January 1, 2010
Profit before income tax	534	(1,177)	(5,514)
Tax at the statutory tax rate (15%)	80	(177)	(827)
Tax effect of permanent differences	(27)	698	336
Income tax expense/(benefit)	53	521	(491)
Current income tax expense	170	-	-
Change in loss carryforward	(170)	-	-
Changes in deferred income tax balances	53	521	(491)
Income tax expense/(benefit)	53	521	(491)

(in thousands of Georgian Lari)

The effective tax rate reconciliation is as follows for the years ended December 31, 2011 and 2010, and January 1, 2010:

Deferred income tax liabilities	**2011**	**2010**	**2009**
As at January 1 – deferred tax liabilities	(1,686)	(1,132)	(1,533)
Tax effect of changes in property revaluation reserve	125	(33)	(90)
Change in deferred income tax balances recognised in profit or loss	(53)	(521)	491
As at December 31 – deferred tax liabilities	**(1,614)**	**(1,686)**	**(1,132)**

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

	December 31, 2011	**December 31, 2010**	**January 1, 2010**
Cash	4,187	2,183	7,029
Balances with the NBG	3,079	3,643	8,626
Total cash and balances with the NBG	**7,266**	**5,826**	**15,655**

The obligatory minimum reserve deposits with the NBG included in the balances with the NBG are restricted balances of GEL 2,938 thousand, GEL 2,836 thousand and GEL 2,552 thousand, respectively, as at December 31, 2011 and 2010, and January 1, 2010. The Bank is required to maintain minimum reserve deposits at 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	7,266	5,826	15,655
Due from banks (Note 13)	5,024	9,853	3,534
Less: minimum reserve deposits with the NBG	(2,938)	(2,836)	(2,552)
Total cash and cash equivalents	**9,352**	**12,843**	**16,637**

13. DUE FROM BANKS

Due from banks comprise:

	December 31, 2011	**December 31, 2010**	**January 1, 2010**
Time deposits	2,861	5,377	27
Correspondent accounts	2,163	9,853	3,534
Total due from banks	**5,024**	**15,230**	**3,561**

(in thousands of Georgian Lari)

Included in due from banks is accrued interest in the amount of GEL 1 thousand, GEL 31 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 Bank had balances due from nil, one and nil banks, respectively, with individual exposure exceeding 10% of the Bank's equity.

As at December 31, 2011 and 2010, and January 1, 2010 there are no guarantee deposits placed by the Bank for its operations with plastic cards included in balances due from banks.

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Originated loans to customers	76,791	55,754	90,926
Accrued interest	1,637	1,778	4,677
Less: allowance for impairment losses	(6,624)	(9,311)	(13,176)
Total loans to customers	**71,804**	**48,221**	**82,427**

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

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

	December 31, 2011	December 31, 2010	January 1, 2010
Loans collateralized by combined collateral	35,274	20,917	14,877
Loans collateralized by pledge of real estate	31,763	29,834	43,886
Loans collateralized by pledge of vehicles	680	1,117	2,326
Loans collateralized by cash	324	360	22,878
Loans collateralized by corporate guarantees	28	-	118
Loans collateralized by pledge of equipment	16	42	56
Other collateral	5,129	4,024	2,322
Unsecured loans	5,214	1,238	9,140
Less: allowance for impairment losses	(6,624)	(9,311)	(13,176)
Total loans to customers	**71,804**	**48,221**	**82,427**

During the years ended December 31, 2011 and 2010, and January 1, 2010 the Bank received financial (or non-financial) assets by taking possession of collateral it held as security (or calling on other credit enhancements, e.g. guarantees). As at December 31, 2011 and 2010, and January 1, 2010 such assets in amount of GEL 8,067 thousand, GEL 7,895 thousand and GEL 8,338 thousand, respectively, are included in repossessed assets held for sale. It is the Bank's policy to dispose repossessed assets in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not use repossessed properties for business use.

(in thousands of Georgian Lari)

	December 31, 2011	December 31, 2010	January 1, 2010
Analysis by sector:			
Individuals	29,480	26,718	39,014
Construction and real estate	11,247	9,329	11,708
Trade	9,005	4,585	5,714
Fast moving consumer goods	6,804	3,395	1,872
Agriculture	5,458	1,493	895
Finance sector	5,152	5,064	1,862
Manufacturing and resources	3,017	1,711	1,609
Energy	2,936	4,429	3,371
Pharmaceutics and medicine	2,524	198	150
Tourism	795	562	25,111
Transport and logistics	213	-	1,690
Telecommunication, media and IT	9	48	2,544
Other	1,788	-	63
Less: allowance for impairment losses	(6,624)	(9,311)	(13,176)
Total loans to customers	**71,804**	**48,221**	**82,427**

Loans to individuals comprise the following products:

	December 31, 2011	December 31, 2010	January 1, 2010
Mortgage loans	23,301	18,677	26,726
Consumer loans	3,797	3,447	3,444
Cards	1,245	2,631	5,054
Car loans	900	1,773	3,332
Other	237	190	458
Less: allowance for impairment losses	(2,435)	(4,256)	(6,992)
Total loans to individuals	**27,045**	**22,462**	**32,022**

As at January 1, 2010 the Bank granted loans to one customer totaling GEL 20,990 thousand, which individually exceeded 5% of the Bank's equity. As at December 31, 2011 and 2010, the Bank had no such concentrated loans.

As at December 31, 2011 and 2010, and January 1, 2010 a significant amount of loans (99%, 98% and 98% of total loans to customers) is 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 5,587 thousand, GEL 8,583 thousand and GEL 27, 581 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

(in thousands of Georgian Lari)

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	12,951	(2,137)	10,814	14,231	(5,867)	8,364	19,500	(8,366)	11,134
Loans to customers collectively determined to be impaired	64,682	(4,487)	60,195	43,301	(3,444)	39,857	76,103	(4,810)	71,293
Unimpaired loans	795	-	795	-	-	-	-	-	-
Total	**78,428**	**(6,624)**	**71,804**	**57,532**	**(9,311)**	**48,221**	**95,603**	**(13,176)**	**82,427**

15. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	% of ownership	December 31, 2011	% of ownership	December 31, 2010	% of ownership	January 1, 2010
JSC Gudauri (former JSC Gergeti)	2.05%	260	2.05%	260	2.05%	260
Tbilisi Interbank Stock Exchange	-	-	8.33%	40	8.33%	40
Less allowance for impairment losses		(260)		(260)		(260)
Total investments available-for-sale		**-**		**40**		**40**

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

16. INVESTMENTS HELD TO MATURITY

	December 31, 2011		December 31, 2010		January 1, 2010	
	Nominal annual interest rate	Carrying value	Nominal annual interest rate	Carrying value	Nominal annual interest rate	Carrying value
Deposit Certificates of the National Bank of Georgia	-	-	9.05%-9.75%	2,377	-	-
Government treasury bills of the Ministry of Finance of Georgia	9.20%-9.37%	768	10.07%-14.00%	1,693	-	-
Government treasury bonds of the Ministry of Finance of Georgia	9.5%-13.00%	2,765	13.80%	301	-	-
Total investments held to maturity		**3,533**		**4,371**		**-**

(in thousands of Georgian Lari)

Included in investments held to maturity is accrued interest in the amount of GEL 69 thousand, GEL 2 thousand and GEL nil thousand as at December 31, 2011 and 2010, and January 1, 2010, respectively.

17. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise:

	Buildings and other real estate	Furniture and fixtures	Computers and office equipment	Vehicles	Assets under construction	Leasehold improvements	Other	Total
At initial /revalued cost								
January 1, 2010	17,706	1,864	1,951	483	30	2,399	1,787	26,220
Additions	-	17	12	9	-	-	14	52
Disposals	-	-	(1)	(57)	(30)	-	-	(88)
Revaluation	(133)	-	-	-	-	-	-	(133)
December 31, 2010	17,573	1,881	1,962	435	-	2,399	1,801	26,051
Additions	-	72	52	76	522	577	151	1,450
Disposals	-	(289)	(151)	(236)	-	(418)	(527)	(1,621)
Revaluation	(1,201)	-	-	-	-	(1,214)	-	(2,415)
December 31, 2011	16,372	1,664	1,863	275	522	1,344	1,425	23,465
Accumulated depreciation and impairment								
January 1, 2010	-	458	593	199	-	728	243	2,221
Depreciation charge	367	303	232	92	-	430	288	1,712
Eliminated on disposals	(8)	-	(1)	(23)	-	-	-	(32)
Eliminated on revaluation	(359)	-	-	-	-	-	-	(359)
December 31, 2010	-	761	824	268	-	1,158	531	3,542
Depreciation charge	368	263	164	76	-	393	231	1,495
Eliminated on disposals	-	(164)	(103)	(175)	-	(317)	(107)	(866)
Eliminated on revaluation	(368)	-	-	-	-	(1,214)	-	(1,582)
December 31, 2011	-	860	885	169	-	20	655	2,589
Net book value								
As at December 31, 2011	**16,372**	**804**	**978**	**106**	**522**	**1,324**	**770**	**20,876**
As at December 31, 2010	**17,573**	**1,120**	**1,138**	**167**	**-**	**1,241**	**1,270**	**22,509**
As at January 1, 2010	**17,706**	**1,406**	**1,358**	**284**	**30**	**1,671**	**1,544**	**23,999**

(in thousands of Georgian Lari)

As at December 31, 2011 and 2010, and January 1, 2010 included in property, plant and equipment were fully depreciated assets totaling GEL 600 thousand, GEL 284 thousand and GEL 128 thousand, respectively.

As at December 31, 2011 buildings owned by the Bank were revalued to market prices according to the opinion of the independent appraiser using sales comparison approach. The sales comparison approach – establishes limits on the market value for real property by examining the prices commonly paid for properties that complete with the subject property for buyers. Sales are investigated to ensure that the parties to the transaction were typically motivated. Sale prices reflecting motivation other than that of a typical market participant, i.e. transactions of special purchasers who are willing to pay a premium for a particular property, should be eliminated. As a result, carrying value of these buildings amounted to GEL 16,372 as at December 31, 2011.

18. INVESTMENT PROPERTY

Investment property comprises:

	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Cost			
As at January 1	2,034	2,194	1,337
Acquisitions	1,196	810	1,294
Disposals	(566)	(1,070)	-
Gain/(loss) on property revaluation	(19)	100	(437)
As at December 31	**2,645**	**2,034**	**2,194**

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 392 thousand, GEL 318 thousand and GEL 144 thousand, respectively.

The fair value of the Bank's investment property at December 31, 2011 and 2010, and January 1, 2010 have been arrived at on the basis of a valuation carried out at that date by Baker Tilly Georgia, independent valuers that are not related to the Bank. Baker Tilly Georgia 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.

(in thousands of Georgian Lari)

19. INTANGIBLE ASSETS

Intangible assets comprise:

At cost	
January 1, 2010	941
Additions	26
December 31, 2010	967
Additions	167
December 31, 2011	1,134
Accumulated amortisation	
January 1, 2010	(238)
Charge for the year	(136)
December 31, 2010	(374)
Charge for the year	(168)
December 31, 2011	(542)
Net book value	
December 31, 2011	**592**
December 31, 2010	**593**
January 1, 2010	**703**

20. OTHER ASSETS

Other assets comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Other financial assets:			
Receivables on other transactions	347	124	325
Derivatives	-	-	214
	347	124	539
Other non-financial assets:			
Tax settlements, other than income tax	235	199	256
Prepayments for property, plant and equipment	-	-	194
Prepayments for operating expenses	1,501	1,221	1,997
	1,736	1,420	2,447
Total other assets	**2,083**	**1,544**	**2,986**

(in thousands of Georgian Lari)

21. REPOSSESSED ASSETS

	December 31, 2011	December 31, 2010	January 1, 2010
Land	1,960	2,162	2,342
Buildings	6,107	5,733	5,866
Vehicles	-	-	130
Total repossessed assets	**8,067**	**7,895**	**8,338**

Repossessed assets held for sale comprise land, buildings and vehicles located in Tbilisi and other regions of Georgia. The Bank has an intention to sell the asssets and it is anticipated that the transaction will take place in 2012.

As at December 31, 2011 the Bank performed valuation of repossessed assets. For certain individual properties fair value was less than carrying amount. Consequently such assets were recognized at fair value.

22. DUE TO BANKS

Due to banks comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Correspondent accounts of other banks	378	6	6
Term deposits of banks and other financial institutions	6,042	900	-
Total due to banks	**6,420**	**906**	**6**

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

As at December 31, 2011 and 2010, and January 1, 2010 included in due to banks are GEL 3,341 thousand, GEL 900 thousand and GEL nil thousand (52%, 100% and 0% of total balances dues to banks), respectively, that were due to one bank, which represents a significant concentration.

23. DUE TO CUSTOMERS

Due to customers comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Time deposits	12,453	6,606	31,020
Repayable on demand	14,783	13,341	27,301
Total due to customers	**27,236**	**19,947**	**58,321**

Included in due to customers is accrued interest in the amount of GEL 414 thousand, GEL 119 thousand and GEL 2,671 thousand as at December 31, 2011 and 2010, and January,1 2010, respectively.

(in thousands of Georgian Lari)

As at December 31, 2011 and 2010, and January 1, 2010 due to customers totaling GEL 1,673 thousand, GEL 84 thousand and GEL 9,113 thousand, respectively, were held as security against guarantees issued by the Bank.

As at December 31, 2011 and 2010, and January 1, 2010 due to customers totaling GEL 11,015 thousand, GEL 10,969 and GEL 44,284 thousand, respectively, were due to 10 customers, which represent significant concentration.

	December 31, 2011	December 31, 2010	January 1, 2010
Analysis by economic sector:			
Individuals	13,050	6,184	7,446
Trade	7,828	7,639	24,604
Real estate	2,115	2,548	16,113
Retail	1,762	1,171	8,110
Construction	1,207	773	878
Agriculture	389	-	-
Finance sector	117	-	-
Transport and communication	6	5	152
Mining and metallurgy	1	51	31
Other	761	1,576	987
Total due to customers	**27,236**	**19,947**	**58,321**

24. OTHER BORROWED FUNDS

Other borrowed funds comprise:

	Currency	Maturity	Nominal interest rate %	December 31, 2011	Nominal interest rate %	December 31, 2010	Nominal interest rate %	January 1, 2010
JSC BTA Bank Kazakhstan	USD	14-Nov-14	10%	2,178	10%	3,103	10%	3,703
JSC BTA Bank Kazakhstan	USD	11-Feb-14	12%	1,755	12%	1,680	18%	1,450
JSC BTA Bank Kazakhstan	USD	18-Feb-14	12%	1,331	12%	1,273	-	-
JSC BTA Bank Kazakhstan	USD	18-Feb-14	12%	9,678	12%	9,258	18%	8,819
JSC BTA Bank Kazakhstan	USD	4-Mar-14	12%	410	12%	391	-	-
JSC BTA Bank Kazakhstan	USD	4-Mar-14	12%	3,889	12%	3,718	18%	3,437
JSC BTA Bank Kazakhstan	USD	28-May-14	12%	10,022	12%	9,645	18%	8,119
JSC BTA Bank Kazakhstan	USD	27-Aug-14	12%	10,843	12%	10,408	18%	8,731
JSC BTA Bank Kazakhstan	USD	25-Oct-14	12%	8,941	12%	8,562	18%	7,271
Total other borrowed funds				**49,047**		**48,038**		**41,530**

Included in other borrowed funds is accrued interest in the amount of GEL 9,636 thousand, GEL 5,422 thousand and GEL 1,684 thousand as at December 31, 2011 and 2010, and January 1, 2010, respectively.

(in thousands of Georgian Lari)

25. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Other financial liabilities:			
Creditors	414	304	212
Other non-financial liabilities:			
Provision for guarantees and other commitments	118	118	117
Provision for legal cases	100	100	-
Provision for unused vacation	-	89	109
Advances received	270	-	-
Taxes payable, other than income tax	-	12	52
Other	6	16	4
Total other liabilities	**908**	**639**	**494**

Movements in provision for guarantees and other commitments for the years ended December 31, 2011and 2010 are disclosed in Note 6.

26. SUBORDINATED DEBT

Subordinated debt comprises:

	Currency	Maturity	Nominal interest rate %	Weighted average effective rate	December 31, 2011	December 31, 2010	January 1, 2010
Subordinated debt from related parties	USD	14-Mar-13	9%	9%	2,528	2,683	2,551
Total subordinated debt					**2,528**	**2,683**	**2,551**

Included in subordinated debt is accrued interest in the amount of GEL 23 thousand, GEL 24 thousand and GEL 23 thousand as at December 31, 2011 and 2010, and January 1, 2010, respectively.

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

27. SHARE CAPITAL

As at December 31, 2011 and 2010, and January 1, 2010 the Bank's authorised ordinary shares amount to GEL 30,000 thousand with a nominal value per share of GEL 1. All authorised shares have been issued and fully paid.

(in thousands of Georgian Lari)

28. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank 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 statement of financial position.

The Bank 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 amounted to GEL 118 thousand, GEL 118 thousand and GEL 117 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	3,280	1,337
Commitments on loans and unused credit lines	2,272	1,238
Total contingent liabilities and credit commitments	5,552	2,575

Extension of loans to customers within credit line limits is approved by the Bank 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 2,272 thousand, GEL 1,238 thousand and GEL 2,862 thousand, respectively.

Capital commitments – As at December 31, 2011 and 2010, and January 1, 2010 the Bank 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 Bank are received from customers and counterparties. Provision in the amount of GEL 100 thousand has been made in these financial statements by the Bank.

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 Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

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 Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.

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

(in thousands of Georgian Lari)

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 Georgia's 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 Bank's access to capital and cost of capital for the Bank 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 Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

29. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Bank and its related parties are disclosed below:

	December 31, 2011		December 31, 2010	
	Related party balances	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Due from banks	377	5,024	328	15,230
- the parent	376		327	
- other related parties	1		1	
Loans to customers	404	78,428	302	57,532
- key management personnel of the Bank	404		302	
Allowance for impairment losses on loans to customers	(34)	(6,624)	(27)	(9,311)
- key management personnel of the Bank	(34)		(27)	
Due to banks	11	6,420	4	906
- the parent	4		4	
- entities under common control	7		-	
Due to customers	1,613	27,236	11	19,947
- key management personnel of the	128		11	
- other related parties	1,485		-	

(in thousands of Georgian Lari)

	December 31, 2011		December 31, 2010	
	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Other borrowed funds	49,047	49,047	48,038	48,038
- the parent	49,047		48,038	
Subordinated debt	2,528	2,528	2,683	2,683
- the parent	2,528		2,683	
Unused loan commitments	20	2,272	2	1,238
- key management personnel of the Bank	20		2	

The amounts outstanding are unsecured and will be settled in cash. No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

The remuneration of Board of Directors, Supervisory Board and the Bank's management was as follows:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Key management personnel compensation:				
- short-term employee benefits	654	4,369	595	4,280
Total	**654**	**4,369**	**595**	**4,280**

(in thousands of Georgian Lari)

Included in the 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 financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income	58	12,144	52	12,405
- key management personnel of the Bank or its parent	58		52	
Interest expense	(5,065)	(6,393)	(5,935)	(7,725)
- the parent	(5,062)		(5,933)	
- key management personnel of the Bank or its parent	(3)		-	
- other related parties	-		(2)	
Operating expenses	(654)	(11,510)	(595)	(11,921)
- key management personnel of the Bank or its parent	(654)		(595)	

30. 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 ben 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.

(in thousands of Georgian Lari)

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 Bank 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	7,266	7,266	5,826	5,826
Due from banks	5,024	5,024	15,230	15,230
Loans to customers	71,804	66,706	48,221	46,292
Investments held to maturity	3,533	3,511	4,371	4,371
Other financial assets	347	347	124	124
Due to banks	6,420	6,420	906	906
Due to customers	27,236	26,093	19,947	19,214
Other borrowed funds	49,047	44,005	48,038	47,811
Subordinated debt	2,528	2,409	2,683	2,158
Other financial liabilities	414	414	304	304

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Management has used all available market information in estimating the fair value of financial instruments.

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.

31. CAPITAL RISK MANAGEMENT

The Bank's objectives when managing capital are to comply with the capital requirements set by the National Bank of Georgia ("NBG"), to safeguard the Bank's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 12%.

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

Under the current capital requirements set by the NBG banks have to: (a) hold the minimum level of share capital of GEL 12,000 thousand (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 8%.

(in thousands of Georgian Lari)

The following table analyses the Bank's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee:

	Year ended December 31, 2011	Year ended December 31, 2010
Movement in tier 1 capital:		
At 1 January	34,562	36,067
Net profit/(loss) for the year	481	(1,698)
Other comprehensive income	(708)	193
At December 31	34,335	34,562

	December 31, 2011	December 31, 2010
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	30,000	30,000
Accumulated deficit	(422)	(1,017)
Revaluation reserve	4,757	5,579
Total qualifying tier 1 capital	34,335	34,562
Subordinated debt	2,528	2,683
Total regulatory capital	36,863	37,245
Capital Ratios:		
Tier 1 capital	25.75%	31.48%
Total capital	32.09%	40.46%

Quantitative measures established by regulation to ensure capital adequacy require the Bank 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 Bank 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 Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

32. RISK MANAGEMENT POLICIES

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

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

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

(in thousands of Georgian Lari)

Credit risk

The Bank 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.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counteparties and for geographical and industry concentrations, and by monitoring exposures in relations to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credut risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows each counterparty to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Maximum exposure of credit risk

The Bank's 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 Bank'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, 2011**	**December 31, 2010**
Balances with the NBG	3,079	3,643
Due from banks	5,024	15,230
Loans to customers	71,804	48,221
Investments available-for-sale	-	40
Investments held to maturity	3,533	4,371
Other financial assets	347	124
Guarantees issued and similar commitments	3,280	1,337
Commitments on loans and unused credit lines	2,272	1,238

Off-balance sheet risk

The Bank 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.

(in thousands of Georgian Lari)

Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank 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	7,266	-	-	7,266
Due from banks	3,083	521	1,420	5,024
Loans to customers	71,004	111	689	71,804
Investments held to maturity	3,533	-	-	3,533
Other financial assets	231	100	16	347
TOTAL FINANCIAL ASSETS	85,117	732	2,125	87,974
FINANCIAL LIABILITIES				
Due to banks	6,409	11		6,420
Due to customers	22,019	3,372	1,845	27,236
Other borrowed funds	-	49,047	-	49,047
Other financial liabilities	318	96	-	414
Subordinated debt	-	2,528	-	2,528
TOTAL FINANCIAL LIABILITIES	28,746	55,054	1,845	85,645
NET POSITION	**56,371**	**(54,322)**	**280**	

	Georgia	Other non-OECD countries	OECD countries	December 31, 2010 Total
FINANCIAL ASSETS				
Cash and balances with the NBG	5,826	-	-	5,826
Due from banks	12,391	2,839	-	15,230
Loans to customers	48,221	-	-	48,221
Investments available-for-sale	40	-	-	40
Investments held to maturity	4,371	-	-	4,371
Other financial assets	124	-	-	124
TOTAL FINANCIAL ASSETS	70,973	2,839	-	73,812
FINANCIAL LIABILITIES				
Due to banks	906	-	-	906
Due to customers	19,947	-	-	19,947
Other borrowed funds	-	48,038	-	48,038
Other financial liabilities	304	-	-	304
Subordinated debt	-	2,683	-	2,683
TOTAL FINANCIAL LIABILITIES	21,157	50,721	-	71,878
NET POSITION	**49,816**	**(47,882)**	-	

(in thousands of Georgian Lari)

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties;
- For retail lending, mortgages over residential properties.

During the years ended December 31, 2011 and 2010, the Bank took possession of repossessed assets with a carrying value of GEL 8,067 thousand and GEL 7,895 thousand, respectively, at the statement of financial position date, which the Bank is in the process of selling.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Credit quality by class of financial assets

As at December 31, 2011:

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Collectively impaired	(Impairment allowance)	Total
Due from banks	5,024	-	-	-	-	5,024
Loans to customers	795	-	12,951	64,682	(6,624)	71,804
Investment held to maturity	3,533	-	-	-	-	3,533
Other financial assets	347	-	-	-	-	347

As at December 31, 2010:

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Collectively impaired	(Impairment allowance)	Total
Due from banks	15,230	-	-	-	-	15,230
Loans to customers	-	-	14,231	43,301	(9,311)	48,221
Investments available-for-sale	40	-	-	-	-	40
Investment held to maturity	4,371	-	-	-	-	4,371
Other financial assets	124	-	-	-	-	124

(in thousands of Georgian Lari)

The following table details credit ratings of financial assets held by the Bank:

December 31, 2011	AAA	AA	A	BBB	<BBB	Not rated	Total
Due from banks	-	1,420	-	-	3,215	389	5,024
Loans to customers	-	-	-	-	-	71,804	71,804
Investments held to maturity	-	-	-	-	3,533	-	3,533
Other financial assets	-	-	-	-	-	347	347
December 31, 2010							
Due from banks	-	2,435	-	-	12,015	780	15,230
Loans to customers	-	-	-	-	-	48,221	48,221
Investments available-for-sale	-	-	-	-	-	40	40
Investments held to maturity	-	-	-	-	4,371	-	4,371
Other financial assets	-	-	-	-	-	124	124

The Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The Bank has not developed internal models, which allow it to determine the rating of counterparties, which are comparable to rating of international rating agencies.

As at December, 31 2011 and 2010 the balances with the NBG amounted to GEL 3,079 thousand and GEL 3,643 thousand, respectively. The credit rating of Georgia according to the international rating agencies corresponded to investment level <BBB.

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 Bank 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.

Carrying amount by class of financial assets whose terms have been renegotiated:

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	5,587	8,583

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 Bank's risk management policy are not breached.

Liquidity risk

Liquidity risk management

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 Bank is exposed to daily calls on its available cash resources, mainly from current customer accounts. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by of the ALMC.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a monthly basis in accordance with the requirement of the NBG. The ratio that is monitored is the liquidity ratio, which is calculated as the ratio of highly liquid assets to liabilities payable on demand (including off balance sheet liabilities with maturity of less than six month).

According to the instruction set by the NBG, the Bank calculates instant liquidity as a ratio of daily average liquid assets to daily average liquid liabilities. This ratio is calculated based on balances derived from statutory financial statements of the Bank.

The National Bank of Georgia has in place minimum levels of liquidity required. As at December 31, 2011, the Bank complied with this requirement.

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

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Bank will be liable to redeem the liability;

(b) estimated term till maturity of financial assets, 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 Bank expects that cash flows will be received in the different time.

(in thousands of Georgian Lari)

	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						
Balances with the NBG	2,938	-	-	-	-	2,938
Due from banks	3,052	-	-	-	-	3,052
Loans to customers	2,290	2,382	8,119	40,449	18,564	71,804
Investments held to maturity	-	-	1,070	2,463	-	3,533
Total interest bearing financial assets	8,280	2,382	9,189	42,912	18,564	81,327
Non-interest bearing financial assets						
Cash and balances with the NBG	4,328	-	-	-	-	4,328
Due from banks	1,972	-	-	-	-	1,972
Other financial assets	181	7	159	-	-	347
TOTAL FINANCIAL ASSETS	**14,761**	**2,389**	**9,348**	**42,912**	**18,564**	**87,974**
FINANCIAL LIABILITIES						
Due to banks	6,042	-	-	-	-	6,042
Due to customers	6,000	739	8,948	1,773	310	17,770
Other borrowed funds	-	-	-	49,047	-	49,047
Subordinated debt	-	-	-	2,528	-	2,528
Total interest bearing financial liabilties	12,042	739	8,948	53,348	310	75,387
Non-interest bearing financial liabilitie						
Due to banks	378	-	-	-	-	378
Due to customers	9,466	-	-	-	-	9,466
Other financial liabilities	235	49	63	67	-	414
TOTAL FINANCIAL LIABILITIES	**22,121**	**788**	**9,011**	**53,415**	**310**	**85,645**
Liquidity gap	(7,360)	1,601	337	(10,503)	18,254	
Cumulative liquidity gap	(7,360)	(5,759)	(5,422)	(15,925)	2,329	
Interest sensitivity gap	(3,762)	1,643	241	(10,436)	18,254	
Cumulative interest sensitivity gap	(3,762)	(2,119)	(1,878)	(12,314)	5,940	

(in thousands of Georgian Lari)

	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						
Balances with the NBG	2,836	-	-	-	-	2,836
Due from banks	7,031	5,349	-	-	-	12,380
Loans to customers	462	1,646	7,791	29,133	9,189	48,221
Investments available-for-sale	40	-	-	-	-	40
Investments held to maturity	-	2,377	1,693	301	-	4,371
Total interest bearing financial assets	10,369	9,372	9,484	29,434	9,189	67,848
Non-interest bearing financial assets						
Cash and balances with the NBG	2,990	-	-	-	-	2,990
Due from banks	2,850	-	-	-	-	2,850
Other financial assets	124	-	-	-	-	124
TOTAL FINANCIAL ASSETS	16,333	9,372	9,484	29,434	9,189	73,812
FINANCIAL LIABILITIES						
Due to banks	900	-	-	-	-	900
Due to customers	2,219	849	2,430	2,506	329	8,333
Other borrowed funds	-	-	-	48,038	-	48,038
Subordinated debt	-	-	-	2,683	-	2,683
Total interest bearing financial liabilities	3,119	849	2,430	53,227	329	59,954
Non-interest bearing financial liabilities						
Due to banks	6	-	-	-	-	6
Due to customers	11,614	-	-	-	-	11,614
Other financial liabilities	304	-	-	-	-	304
TOTAL FINANCIAL LIABILITIES	**15,043**	**849**	**2,430**	**53,227**	**329**	**71,878**
Liquidity gap	1,290	8,523	7,054	(23,793)	8,860	
Cumulative liquidity gap	1,290	9,813	16,867	(6,926)	1,934	
Interest sensitivity gap	7,250	8,523	7,054	(23,793)	8,860	
Cumulative interest sensitivity gap	7,250	15,773	22,827	(966)	7,894	

In the table above, the terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws.

The following tables detail the Bank's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

(in thousands of Georgian Lari)

	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, 2011 Total
FINANCIAL LIABILITIES							
Due to banks	6.53%	6,047	-	-	-	-	6,047
Due to customers	9.32%	6,000	739	9,653	2,080	657	19,129
Other borrowed funds	11.89%	-	-	-	60,603	-	60,603
Subordinated debt	9.00%	-	-	-	2,799	-	2,799
Total interest bearing financial liabilities		12,047	739	9,653	65,482	657	88,578
Non-interest bearing instruments							
Due to banks		378	-	-	-	-	378
Due to customers		9,466	-	-	-	-	9,466
Other financial liabilities		235	49	63	67	-	414
Total non-interest bearing financial liabilities		10,079	49	63	67	-	10,258
TOTAL FINANCIAL LIABILITIES		22,126	788	9,716	65,549	657	98,836

	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	7.72%	901	-	-	-	-	901
Due to customers	9.47%	2,312	863	2,543	2,988	743	9,449
Other borrowed funds	11.86%	-	-	-	65,582	-	65,582
Subordinated debt	9.00%	-	-	-	3,210	-	3,210
Total interest bearing financial liabilities		3,213	863	2,543	71,780	743	79,142
Non-interest bearing instruments							
Due to banks		6	-	-	-	-	6
Due to customers		11,614	-	-	-	-	11,614
Other financial liabilities		304	-	-	-	-	304
Total non-interest bearing financial liabilities and commitments		11,924	-	-	-	-	11,924
TOTAL FINANCIAL LIABILITIES		15,137	863	2,543	71,780	743	91,066

(in thousands of Georgian Lari)

The amounts included above for financial guarantee contracts are the maximum amounts the Bank could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Bank considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Market risk

Market risk is that the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, etc. There have been no changes as to the way the Bank measures and manages this risk.

The majority of the Bank's loan contracts and other financial assets and liabilities bear fixed interest rates. The Bank 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 Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate re-pricing that may be undertaken.

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

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

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

	December 31, 2011		December 31, 2010	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Financial assets:				
Balances with the NBG	29	(29)	28	(28)
Due from banks	31	(31)	124	(124)
Loans to customers	718	(718)	482	(482)
Investments available-for-sale	-	-	-	-
Investments held to maturity	35	(35)	44	(44)
Financial liabilities:				
Due to banks	(60)	60	(9)	9
Due to banks customers	(178)	178	(83)	83
Other borrowed funds	(490)	490	(480)	480
Subordinated debt	(25)	25	(27)	27
Net impact on profit before tax	60	(60)	79	(79)

(in thousands of Georgian Lari)

Impact on equity:

	December 31, 2011 Interest rate +1%	December 31, 2011 Interest rate -1%	December 31, 2010 Interest rate +1%	December 31, 2010 Interest rate -1%
Financial assets:				
Balances with the NBG	25	(25)	24	(24)
Due from banks	26	(26)	105	(105)
Loans to customers	610	(610)	410	(410)
Investments available-for-sale	-	-	-	-
Investments held to maturity	30	(30)	37	(37)
Financial liabilities:				
Due to banks	(51)	51	(8)	8
Due to banks customers	(151)	151	(71)	71
Other borrowed funds	(417)	417	(408)	408
Subordinated debt	(21)	21	(23)	23
Net impact on equity	**51**	**(51)**	**66**	**(66))**

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. In respect of currency risk, the Bank's management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Bank's exposure to foreign currency exchange rate risk is presented in the table 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	2,174	4,094	942	56	7,266
Due from banks	2,094	2,383	516	31	5,024
Loans to customers	10,061	61,437	306	-	71,804
Investments held to maturity	3,533	-	-	-	3,533
Other financial assets	219	118	6	4	347
Total financial assets	**18,081**	**68,032**	**1,770**	**91**	**87,974**
Financial liabilities					
Due to banks	6,413	7	-	-	6,420
Due to customers	6,715	18,569	1,942	10	27,236
Other borrowed funds	-	49,047	-	-	49,047
Subordinated debt	-	2,528	-	-	2,528
Other financial liabilities	217	197	-	-	414
Total financial liabilities	**13,345**	**70,348**	**1,942**	**10**	**85,645**
OPEN POSITION	**4,736**	**(2,316)**	**(172)**	**81**	

(in thousands of Georgian Lari)

	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	1,591	3,456	754	25	5,826
Due from banks	4,220	10,112	858	40	15,230
Loans to customers	4,472	43,475	274	-	48,221
Investments available-for-sale	40	-	-	-	40
Investments held to maturity	4,371	-	-	-	4,371
Other financial assets	124	-	-	-	124
Total financial assets	**14,818**	**57,043**	**1,886**	**65**	**73,812**
Financial liabilities					
Due to banks	904	2	-	-	906
Due to customers	5,567	12,451	1,915	14	19,947
Other borrowed funds	-	48,038	-	-	48,038
Subordinated debt	-	2,683	-	-	2,683
Other financial liabilities	108	194	-	2	304
Total financial liabilities	**6,579**	**63,368**	**1,915**	**16**	**71,878**
OPEN POSITION	**8,239**	**(6,325)**	**(29)**	**49**	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 10% increase and decrease in GEL against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents 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 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations with the Bank where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where GEL strengthens 10% against the relevant currency. For a 10% weakening of GEL against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	December 31, 2011		December 31, 2010	
	GEL/USD +10%	GEL/USD -10%	GEL/USD +10%	GEL/USD -10%
Impact on profit or loss before tax	(232)	232	(633)	633
Impact on equity	(197)	197	(538)	538

	December 31, 2011		December 31, 2010	
	GEL/EUR +10%	GEL/EUR -10%	GEL/EUR +10%	GEL/EUR -10%
Impact on profit or loss before tax	(17)	17	(3)	3
Impact on equity	(14)	14	(3)	3

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 Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank'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 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 Bank'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.

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 Bank 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, authorization and reconciliation procedures, staff education and assessment processes.