TBC BANK GROUP

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

31 December 2012

CONTENTS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS
Consolidated Statement of Financial Position 1
Consolidated Statement of Comprehensive Income 2
Consolidated Statement of Changes in Equity 3
Consolidated Statement of Cash Flows 4

Notes to the Consolidated Financial Statements

1 Introduction 5
2 Summary of Significant Accounting Policies 6
3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies 17
4 Adoption of New or Revised Standards and Interpretations 18
5 New Accounting Pronouncements 18
6 Cash and Cash Equivalents 21
7 Due from Other Banks 23
8 Loans and Advances to Customers 23
9 Investment Securities Available for Sale 30
10 Investment Securities Held to Maturity 31
11 Other Financial Assets 31
12 Investments in Finance Lease 33
13 Other Assets 35
14 Premises, Equipment and Intangible Assets 36
15 Investment Properties 37
16 Goodwill 38
17 Disposal Group Held for Sale 39
18 Due to Other Banks 39
19 Customer Accounts 40
20 Provisions for Liabilities and Charges 41
21 Other Financial Liabilities 41
22 Other Liabilities 41
23 Other Borrowed Funds 42
24 Subordinated Debt 43
25 Share Capital 44
26 Share Based Payments 45
27 Earnings per Share 46
28 Segment Analysis 47
29 Other Reserves 50
30 Interest Income and Expense 51
31 Fee and Commission Income and Expense 52
32 Other Operating Income 52
33 Administrative and Other Operating Expenses 53
34 Income Taxes 53
35 Financial and Other Risk Management 56
36 Management of Capital 70
37 Contingencies and Commitments 71
38 Derivative Financial Instruments 73
39 Fair Value of Financial Instruments 74
40 Presentation of Financial Instruments by Measurement Category 76
41 Related Party Transactions 78
42 Events After the End of the Reporting Period 81

Independent Auditor's Report

To the Shareholders and Management of JSC TBC Bank:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

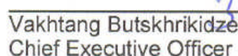
6 In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch.

1 March 2013
Tbilisi, Georgia

In thousands of GEL	Notes	31 December 2012	31 December 2011	31 December 2010
ASSETS				
Cash and cash equivalents	6	398,587	374,153	275,425
Due from other banks	7	345,603	291,009	74,736
Loans and advances to customers	8	2,370,200	2,008,745	1,380,955
Investment securities available for sale	9	407,733	266,436	216,323
Investment securities held to maturity	10	-	28,956	28,986
Investments in finance leases	12	26,377	21,979	9,681
Investment properties	15	34,305	27,082	27,742
Current income tax prepayment		10,135	-	2,500
Goodwill	16	2,726	2,726	1,262
Intangible assets	14	18,817	10,064	3,560
Premises and equipment	14	192,556	163,879	144,429
Other financial assets	11	25,301	11,339	5,930
Other assets	13	67,354	93,653	93,137
Assets of disposal group classified as held for sale	17	-	-	3,115
TOTAL ASSETS		**3,899,694**	**3,300,021**	**2,267,781**
LIABILITIES				
Due to other banks	18	76,204	110,378	47,762
Customer accounts	19	2,486,944	1,999,256	1,365,352
Other borrowed funds	23	550,919	517,772	280,906
Current income tax liability		-	14,162	-
Deferred income tax liability	34	20,143	8,048	7,294
Provisions for liabilities and charges	20	6,174	8,434	6,881
Other financial liabilities	21	19,462	11,305	3,932
Other liabilities	22	20,744	19,405	19,681
Subordinated debt	24	115,080	142,480	158,401
Liabilities of disposal group classified as held for sale	17	-	-	300
TOTAL LIABILITIES		**3,295,670**	**2,831,240**	**1,890,509**
EQUITY				
Share capital	25	16,143	15,171	15,113
Share premium	25	231,501	203,308	201,723
Retained earnings		298,880	201,826	123,423
Share based payment reserve	26	4,142	6,180	-
Other reserves	29	41,939	33,162	31,813
Net assets attributable to the Bank's equity holders		**592,605**	**459,647**	**372,072**
Non-controlling interest		**11,419**	**9,134**	**5,200**
TOTAL EQUITY		**604,024**	**468,781**	**377,272**
TOTAL LIABILITIES AND EQUITY		**3,899,694**	**3,300,021**	**2,267,781**

Approved for issue and signed on behalf of the Board of Directors on 1 March 2013



Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

In thousands of GEL	Notes	2012	2011	2010
Interest income	30	456,545	360,215	271,805
Interest expense	30	(217,895)	(151,134)	(108,991)
Net interest income		**238,650**	**209,081**	**162,814**
Provision for loan impairment	8	(23,154)	(16,049)	(31,320)
Net interest income after provision for loan impairment		**215,496**	**193,032**	**131,494**
Fee and commission income	31	58,140	43,802	30,659
Fee and commission expense	31	(18,830)	(15,094)	(11,605)
Gains less losses from trading in foreign currencies		25,240	25,419	22,803
Net (losses less gains) / gains less losses from derivative financial instruments		(3,804)	(4,987)	(300)
Foreign exchange translation gains less losses/(losses less gains)		7,617	394	(664)
Recovery of impairment / (impairment) of investment securities available for sale		(10)	116	(173)
(Losses less gains) / gains less losses from disposal of investment securities available for sale		-	-	(166)
(Provision) / recovery of provision for liabilities and charges	20	(3,306)	(1,553)	(3,092)
Recovery of provision / (provision) for impairment of investments in finance lease	12	(42)	174	(900)
(Provision) / recovery of provision for impairment of other financial assets	11	(4,132)	(397)	(713)
Recovery of impairment / (impairment) for assets classified as held for sale	17	-	1,519	(1,519)
Other operating income	32	19,772	9,923	8,972
Staff costs including salaries, bonuses and share based compensation		(92,289)	(78,426)	(57,146)
Depreciation and amortisation	14,15	(22,103)	(15,088)	(14,162)
Administrative and other operating expenses	33	(69,440)	(51,744)	(47,276)
Profit before tax		**112,309**	**107,090**	**56,212**
Income tax expense	34	(14,498)	(15,465)	(6,777)
Profit for the year		**97,811**	**91,625**	**49,435**
Other comprehensive income:				
Available-for-sale investments:				
- Revaluation	29	682	1,277	(286)
Revaluation of premises and equipment	29	10,513	1,311	-
Exchange differences on translation to presentation currency		(217)	(904)	1,062
Income tax recorded directly in other comprehensive income		(1,674)	(335)	41
Other comprehensive income for the year		**9,304**	**1,349**	**817**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**107,115**	**92,974**	**50,252**
Profit is attributable to:				
- Owners of the Bank		96,519	90,898	49,374
- Non-controlling interest		1,292	727	61
Profit for the year		**97,811**	**91,625**	**49,435**
Total comprehensive income is attributable to:				
- Owners of the Bank		105,823	92,247	50,191
- Non-controlling interest		1,292	727	61
Total comprehensive income for the year		**107,115**	**92,974**	**50,252**
Earnings per share for profit attributable to the owners of the Bank				
- Basic earnings per share	27	630.1	600.6	329.0
- Diluted earnings per share	27	630.1	598.5	323.1

		Attributable to equity holders of the Bank							
In thousands of GEL	**Note**	**Share capital**	**Share premium**	**Share based payments reserve**	**Other reserves (note 29)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010		**15,000**	**201,723**	**-**	**32,806**	**71,920**	**321,449**	**5,294**	**326,743**
Profit for the year		-	-	-	-	49,374	**49,374**	61	**49,435**
Other comprehensive income		-	-	-	817	-	**817**	-	**817**
Total comprehensive income for 2010		-	-	-	817	49,374	**50,191**	61	**50,252**
Share issue	25	113	-	-	-	-	**113**	-	**113**
Transfer of revaluation surplus on premises to retained earnings		-	-	-	(1,810)	2,129	**319**	-	**319**
Disposal of non-controlling interest in subsidiaries		-	-	-	-	-	**-**	(155)	**(155)**
Balance at 31 December 2010		**15,113**	**201,723**	**-**	**31,813**	**123,423**	**372,072**	**5,200**	**377,272**
Profit for the year		-	-	-	-	90,898	**90,898**	727	**91,625**
Other comprehensive income		-	-	-	1,349	-	**1,349**	-	**1,349**
Total comprehensive income for 2011		-	-	-	1,349	90,898	**92,247**	727	**92,974**
Share issue	25	58	1,585	-	-		**1,643**	-	**1,643**
Share based payment	26	-	-	6,180	-	**-**	**6,180**	-	**6,180**
Dividends paid			-	-	-	(12,495)	**(12,495)**	-	**(12,495)**
Business combination	42	-	-	-	-	**-**	**-**	3,207	**3,207**
Balance at 31 December 2011		**15,171**	**203,308**	**6,180**	**33,162**	**201,826**	**459,647**	**9,134**	**468,781**
Profit for the year						96,519	**96,519**	1,292	**97,811**
Other comprehensive income		**-**	**-**	**-**	9,304	**-**	**9,304**	**-**	**9,304**
Total comprehensive income for 2012		**-**	**-**	**-**	9,304	96,519	**105,823**	1,292	**107,115**
Share issue	25	815	23,612	**-**	**-**	**-**	**24,427**	-	**24,427**
Share based payment	26	**-**	**-**	2,700	**-**	**-**	**2,700**	-	**2,700**
Increase in share capital arising from share based payment		157	4,581	(4,738)	-	-	**-**	-	**-**
Equity contribution by non-controlling interest		**-**	**-**	**-**	**-**	**-**	**-**	993	**993**
Transfer of revaluation surplus on premises to retained earnings		**-**	**-**	**-**	(527)	535	**8**	-	**8**
Balance at 31 December 2012		**16,143**	**231,501**	**4,142**	**41,939**	**298,880**	**592,605**	**11,419**	**604,024**

In thousands of GEL	Note	2012	2011	2010
Cash flows from operating activities				
Interest received		430,700	346,346	243,707
Interest paid		(200,303)	(168,368)	(108,275)
Fees and commissions received		58,140	42,746	30,377
Fees and commissions paid		(18,830)	(15,094)	(11,605)
Income received from trading in foreign currencies		25,240	25,419	21,839
Other operating income received		16,085	10,980	7,745
Staff costs paid		(89,589)	(67,479)	(48,768)
Administrative and other operating expenses paid		(66,465)	(50,921)	(36,405)
Income tax (paid) / refunded		(26,701)	(438)	(1,348)
Cash flows from operating activities before changes in operating assets and liabilities		**128,277**	**123,191**	**97,267**
Changes in operating assets and liabilities				
Net (increase) / decrease in due from other banks		(54,599)	(217,232)	(36,752)
Net (increase) / decrease in loans and advances to customers		(404,568)	(660,195)	(443,889)
Net decrease in investment in finance lease		(4,398)	-	4,409
Net decrease / (increase) in other financial assets		(25,276)	-	2,770
Net decrease / (increase) in other assets		26,402	11,287	(6,205)
Net increase in due to other banks		(34,013)	62,181	20,304
Net increase in customer accounts		474,948	703,751	373,562
Net (decrease) / increase in other liabilities		7,722	(2,091)	653
Net cash from operating activities		**114,495**	**20,892**	**12,119**
Cash flows from investing activities				
Acquisition of investment securities available for sale	9	(813,864)	(646,538)	(483,844)
Proceeds from disposal of investment securities available for sale		90,857	47,815	38,461
Proceeds from redemption at maturity of investment securities available for sale	9	599,913	571,104	236,411
Acquisition of investment securities held to maturity	10	(5,000)	-	(27,921)
Proceeds from redemption of investment securities held to maturity	10	33,000	-	115,496
Acquisition of premises, equipment and intangible assets		(52,820)	(30,634)	(13,931)
Proceeds from disposal of investment property	15	14,296	4,389	-
Proceeds from disposal of subsidiary, net of disposed cash	42	-	150	-
Net cash used in investing activities		**(133,618)**	**(53,714)**	**(135,328)**
Cash flows from financing activities				
Proceeds from other borrowed funds		321,160	359,985	57,505
Redemption of other borrowed funds		(286,695)	(208,316)	-
Proceeds from subordinated debt			-	8,048
Redemption of subordinated debt		(24,738)	(7,875)	-
Dividends paid		-	(12,495)	-
Purchase of additional interest by minority shareholders		993	-	-
Issue of ordinary shares		24,426	-	113
Net cash from / (used in) financing activities		**35,146**	**131,299**	**65,666**
Effect of exchange rate changes on cash and cash equivalents		**8,411**	**251**	**120**
Net increase / (decrease) in cash and cash equivalents		**24,434**	**98,728**	**(57,423)**
Cash and cash equivalents at the beginning of the year	6	**374,153**	**275,425**	**332,848**
Cash and cash equivalents at the end of the year	6	**398,587**	**374,153**	**275,425**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 for TBC Bank (the "Bank") and its subsidiaries (together referred to as the "Group" or "TBC Bank Group").

The Bank was incorporated and is domiciled in Georgia on 17 December 1992. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations.

In 2009 the Group issued new shares and since then it does not have an ultimate controlling party. At 31 December 2012, 2011 and 2010 shareholders structure by ownership interest is as follows:

Shareholders	31 December 2012 Ownership interest,%	31 December 2011 Ownership interest,%	31 December 2010 Ownership interest,%
International Finance Corporation	20%	20%	20%
European Bank for Reconstruction and Development	20%	20%	20%
TBC Holdings LTD	20%	21%	21%
Deutsche Investitions und Entwicklungsgesellschaft MBH	12%	11%	11%
Liquid Crystal International N.V. LLC	7%	7%	7%
Individuals	7%	8%	8%
JPMorgan Chase Bank	5%	5%	5%
Ashmore Cayman SPC	4%	5%	5%
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	5%	3%	3%
Total	**100%**	**100%**	**100%**

Principal activity. The Bank's principal business activity is universal banking operations that include corporate, SME, retail and micro operations within Georgia. The Bank has operated under a general banking license issued by the National Bank of the Georgia ("NBG") since 20 January 1993.

The Bank has 13 (2011: 13; 2010: 13) branches and 45 (2011: 37; 2010: 32) service centres within Georgia. As at 31 December 2012, the Bank had 2,705 employees (2011: 2,598 employees; 2010: 2,291 employees).

The Bank is a parent of a group of companies (the "Group") incorporated in Georgia and Azerbaijan, primary business activities include providing banking, leasing, brokerage, card processing services, to corporate and individual customers. The list of companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

Registered address and place of business. The Bank's registered address and place of business is: 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

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

2 Summary of Significant Accounting Policies

Basis for preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises, available-for-sale financial assets, the initial recognition of financial instruments based on fair value and identifiable assets acquired and liabilities assumed in a business combination measured at their fair values at the acquisition date and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

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

The consolidated financial statements include the following principal subsidiaries:

Subsidiary	31 December 2012 Ownership / voting,%	31 December 2011 Ownership / voting,%	31 December 2010 Ownership / voting,%	Country	Date of incorporation or acquisition	Industry
JSC TBC Leasing	89.53%	89.53%	89.53%	Georgia	2003	Leasing
TBC Kredit LLC	75%	75%	75%	Azerbaijan	2008	Non-banking credit institution
TBC Broker LLC	100%	100%	100%	Georgia	1999	Brokerage
JSC United Financial Corporation	93.32%	93.32%	93.32%	Georgia	1997	Card processing
JSC Real Estate Management Fund	100%	100%	100%	Georgia	2010	Real Estate Management
Banking System Service Company LLC	100%	100%	100%	Georgia	2009	Service
TBC Pay LLC	100%	100%	100%	Georgia	2009	Processing
TBC Invest LLC	100%	100%	-	Israel	2011	PR and Marketing
Bank Constanta JSC	83.85%	83.3%	-	Georgia	2011	Financial Institution

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

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

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

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

2 Summary of Significant Accounting Policies (Continued)

Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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

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

Entities in which Group holds more than 50% of voting rights but whose operations are immaterial for the Group financial statements as a whole are not consolidated. UFC International Limited is not consolidated.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

2 Summary of Significant Accounting Policies (Continued)

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. Refer to Note 9.

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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

Mandatory cash balances with the National Bank of Georgia. Mandatory cash balances with the National Bank of Georgia are carried at amortised cost and represent mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale.

A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss for the year.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

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

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

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

2 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of historical loss experience and the success of recovery of overdue amounts. Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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

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

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

2 Summary of Significant Accounting Policies (Continued)

Repossessed collateral. Repossessed collateral represents non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed assets are recorded at the lower of cost or net realisable value.

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

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment, except for buildings and construction in progress, are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Following initial recognition, land, buildings and construction in progress are carried at revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed frequently enough to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of profit or loss, in which case the increase is recognized in the consolidated statement of profit or loss to the extent of the decrease previously charged. A revaluation deficit is recognized in the consolidated statement of profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Depreciation on revalued buildings is charged to consolidated statement of profit or loss. Upon disposal of revalued property, any revaluation reserve relating to the particular asset being sold or retired is transferred to retained earnings.

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

2 Summary of Significant Accounting Policies (Continued)

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	30 – 50 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 5 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 8 years; and
Leasehold improvements	lesser of 7 years or the term of the underlying lease

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

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. Investment property is amortised on a straight line basis over expected useful lives of thirty to fifty years. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss for the year within other operating income.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortised on a straight line basis over expected useful lives of two to eight years.

Investments in leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Investments in leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

2 Summary of Significant Accounting Policies (Continued)

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated statement of profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of Investments in leases. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the consolidated statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment, investment properties and intangible assets are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

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

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

Subordinated debt. Subordinated debt includes long-term non-derivative liabilities to international financial institutions and is carried at amortised cost. The repayment of subordinated debt ranks after all other creditors in case of liquidation and is included in "tier 2 capital" of the Bank.

2 Summary of Significant Accounting Policies (Continued)

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. The Group also enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

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

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

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Uncertain tax positions. The Group's uncertain tax positions are reassessed by Management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

2 Summary of Significant Accounting Policies (Continued)

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value if the discounting effect is material.

The Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts are recognised as loans and receivables.

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

Share capital. Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.***Income and expense recognition.*** Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

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

2 Summary of Significant Accounting Policies (Continued)

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of respective territories that the Bank and its subsidiaries operate, at the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2012 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.6567 (2011: USD 1 = GEL 1.6703 ; 2010: USD 1 = GEL 1.7728); EUR 1 = GEL 2.1825 (2011: EUR 1 = GEL 2.1614 ; 2010: EUR 1 = GEL 2.3500).

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

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

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Share based payments. Under share-based compensation plan the Group receives services from management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the equity instruments are exercised.

Amendments of the consolidated financial statements after issue. The Bank's shareholders and management have the power to amend the consolidated financial statements after issue.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances and finance lease receivables. The Group regularly reviews its loan portfolio and finance lease receivables to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans or finance lease receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 8,030 thousand (2011: GEL 7,933 thousand; 2010: GEL 8,313 thousand) and additional charge for impairment of finance lease receivables of GEL 6 thousand (2011: GEL 5 thousand ; 2010: GEL 5 thousand), respectively.

Impairment provisions for individually significant loans and leases are based on the estimate of discounted future cash flows of the individual loans and leases taking into account repayments and realisation of any assets held as collateral against the loan or the lease. A 5% increase or decrease in the actual future discounted cash flows from individually significant loans which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for loan loss provision of GEL 4,374 thousand (2011: GEL 4,232 thousand; 2010: GEL 4,272 thousand), respectively. A 5% increase or decrease in the actual future discounted cash flows from individually significant leases which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for provision of GEL 1 thousand (2011: nil; 2010: GEL 21 thousand), respectively.

Fair value disclosure of investment properties. Investment properties held by the Group are carried at cost. However, as per the requirements of IAS 40, the Group also discloses the fair value of investment properties as at the reporting dates. Fair value is determined by internal appraisers of the group. In determining the fair values of investment properties, the Group uses the available information on the real estate market in the media, reports of independent appraisers, who hold a recognised and relevant professional qualification, information available on the valuation of similar assets and the general knowledge of the Group's internal appraisers. At 31 December 2012, investment properties comprised real estate assets located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 45,041 thousand (2011: GEL 37,966 thousand; 2010: GEL 41,914 thousand).

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards. As at 31 December 2012 the entity had investments in finance lease of GEL 26,377 thousand (31 December 2011: GEL 21,979 thousand; 31 December 2010: GEL 9,681 thousand).

Tax legislation. Georgian and Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 34.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. In management judgment, at 31 December 2012, 2011 and 2010, there were no loans and advances at other than market conditions. Terms and conditions of related party balances are disclosed in Note 41.

4 Adoption of New or Revised Standards and Interpretations

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

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

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

5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

5 New Accounting Pronouncements (Continued)

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

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

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

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group does not expect the amendment to have any material effect on its consolidated financial statements.

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

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

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

5 New Accounting Pronouncements (Continued)

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

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

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group does not expect the amendment to have any material effect on its consolidated financial statements.

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

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

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

5 New Accounting Pronouncements (Continued)

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

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

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

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

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

6 Cash and Cash Equivalents

In thousands of GEL	**2012**	**2011**	**2010**
Cash on hand	139,362	116,938	95,138
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	71,707	53,024	22,163
Correspondent accounts and overnight placements with other banks	163,869	128,552	123,516
Placements with and receivables from other banks with original maturities of less than three months	23,649	75,639	34,608
Total cash and cash equivalents	**398,587**	**374,153**	**275,425**

Interest rate analysis of cash and cash equivalents is disclosed in Note 35.

6 Cash and Cash Equivalents (Continued)

Credit rating of correspondent accounts and overnight placements with other banks is as follows:

In thousands of GEL	2012	2011	2010
AA	-	749	203
AA-	-	1,242	14,984
A+	62,137	66,025	101,778
A	94,792	51,515	10
A-	-	170	596
BBB+	-	563	130
BBB	764	-	-
BBB-	11	366	53
BB	3,591	-	-
B+	511	-	-
B-	277	-	-
Not rated	1,786	7,922	5,762
Total	**163,869**	**128,552**	**123,516**

Credit rating of placements with and receivables from other banks with original maturities of less than three months is as follows:

In thousands of GEL	2012	2011	2010
BB+	16,369	-	-
Not rated	7,280	75,639	34,608
Total	**23,649**	**75,639**	**34,608**

The table contains ratings of Standard & Poor's and Fitch Ratings international agencies. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used. Balances with other banks without rating represent placements with top 10 Georgian Banks.

7 Due from Other Banks

In thousands of GEL	2012	2011	2010
Placements with other banks with original maturities of more than three months	29,542	40,942	16,160
Mandatory cash balances with the National Bank of Georgia	316,061	250,067	58,576
Total due from other banks	**345,603**	**291,009**	**74,736**

Mandatory cash balances with the National Bank of Georgia ("NBG") represents amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 2% annual interest on the mandatory reserve with the NBG in 2012, 2011 and 2010.

Amounts due from other banks are not collateralised and represent current and not impaired amounts at the end of 2012, 2011 and 2010.

Credit rating of placements with other banks with original maturities of more than three months is as follows:

In thousands of GEL	2012	2011	2010
A+	-	-	528
A	-	-	54
BBB+	-	-	-
BBB-	-	-	13,944
Not rated	29,542	40,942	1,634
Placements with other banks with original maturities of more than three months	**29,542**	**40,942**	**16,160**

At 31 December 2012 the Group had placement with one counterparty bank with original maturities of more than three months and with aggregated amounts above GEL 2,000 thousand (2011: one bank; 2010: two banks). The total aggregate amount of these deposits was GEL 28,164 thousand (2011: GEL 40,006 thousand; 2010: GEL 14,037 thousand) or 95.3% of the total placements with other banks with original maturities of more than three months (2011: 97.7%; 2010: 86.8%). Balances with other banks without rating represent placements with top 10 Georgian Banks.

Refer to Note 39 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 35.

8 Loans and Advances to Customers

In thousands of GEL	2012	2011	2010
Corporate loans	1,142,087	1,003,849	811,559
Consumer loans	482,704	409,065	284,310
Mortgage loans	385,416	375,008	260,064
Loans to small and medium enterprises	294,217	236,016	152,946
Micro loans	145,931	85,011	-
Others	86,343	58,456	39,530
Total loans and advances to customers (before impairment)	**2,536,698**	**2,167,405**	**1,548,409**
Less: Provision for loan impairment	(166,498)	(158,660)	(167,454)
Total loans and advances to customers	**2,370,200**	**2,008,745**	**1,380,955**

Included in the consumer loans are consumer loans, card loans, overdrafts, express and fast loans and other loans. Included in micro loans are all loans issued by Bank Constanta.

8 Loans and Advances to Customers (Continued)

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

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Total
Provision for loan impairment at 1 January 2012	**114,106**	**25,833**	**12,661**	**5,459**	**601**	**158,660**
Provision for impairment during the year	1,190	15,649	649	1,198	4,468	23,154
Amounts written off during the year as uncollectible	(12,124)	(16,717)	(2,016)	(3,210)	(1,296)	(35,363)
Recovery of amounts previously written off as uncollectible	9,803	6,391	1,892	1,373	588	20,047
Provision for loan impairment at 31 December 2012	**112,975**	**31,156**	**13,186**	**4,820**	**4,361**	**166,498**

Loans and advances to customers written off in 2012 included loans to customers in the gross amount of GEL 1,613 thousand issued during 2012 and GEL 33,750 thousand issued in prior years.

For terms of loans and advances to related parties, impairment provisions made against those loans and amounts written off during the year refer to Note 41.

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

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Total
Provision for loan impairment at 1 January 2011	**116,440**	**24,527**	**15,924**	**10,563**	**-**	**167,454**
Provision for impairment during the year	20,617	2,714	(3,315)	(4,282)	315	**16,049**
Amounts written off during the year as uncollectible	(29,930)	(11,385)	(5,030)	(3,841)	(365)	**(50,551)**
Recovery of amounts previously written off as uncollectible	6,979	9,977	5,082	3,019	651	**25,708**
Provision for loan impairment at 31 December 2011	**114,106**	**25,833**	**12,661**	**5,459**	**601**	**158,660**

Loans and advances to customers written off in 2011 included loans to customers in the gross amount of GEL 2,331 thousand issued during 2011 and GEL 48,220 thousand issued in prior years.

8 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2010 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Total
Provision for loan impairment at 1 January 2010	**123,517**	**34,857**	**11,751**	**10,824**	**180,949**
Provision for impairment during the year	19,331	1,758	9,768	463	31,320
Amounts written off during the year as uncollectible	(38,621)	(20,728)	(8,635)	(3,601)	(71,585)
Recovery of amounts previously written off as uncollectible	12,213	8,640	3,040	2,877	26,770
Provision for loan impairment at 31 December 2010	**116,440**	**24,527**	**15,924**	**10,563**	**167,454**

Loans and advances to customers written off in 2010 included loans to customers in the gross amount of GEL 13,151 thousand issued during 2010 and GEL 58,433 thousand issued in prior years.

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

	2012		2011		2010	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Individual	868,119	34%	784,073	36%	544,374	35%
Services	426,300	17%	331,117	15%	149,431	10%
Real estate	184,946	7%	183,128	8%	120,895	8%
Oil and gas	146,600	6%	119,064	5%	108,944	7%
Consumer goods and automobile trading	134,540	5%	121,235	6%	96,537	6%
Food industry	117,511	5%	98,605	5%	99,732	6%
Construction	114,993	5%	87,768	4%	93,324	6%
Agriculture	110,866	4%	56,252	3%	7,165	1%
Energy	95,349	4%	107,322	5%	111,794	7%
Communication	91,709	4%	94,782	4%	62,499	4%
Pawn shop	86,343	3%	58,456	3%	39,530	2%
Transportation	66,699	3%	55,188	3%	15,548	1%
Manufacturing	30,073	1%	12,200	1%	10,000	1%
Mining	25,440	1%	23,794	1%	24,115	2%
Other	37,210	1%	34,421	1%	64,521	4%
Total loans and advances to customers (before impairment)	**2,536,698**	**100%**	**2,167,405**	**100%**	**1,548,409**	**100%**

Trade and service sector contains loans disbursed to consumer service, healthcare, media and financial service industries.

At 31 December 2012 the Group had 61 borrowers (2011: 52 borrowers; 2010: 43 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 879,619 thousand (2011: GEL 746,079 thousand; 2010: GEL 588,658 thousand) or 35% of the gross loan portfolio (2011: 37%; 2010: 38%).

8 Loans and Advances to Customers (Continued)

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

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Current and not impaired							
- Borrowers with credit history over two years	583,682	214,312	236,243	120,317	672	4,134	**1,159,360**
- New borrowers	354,076	237,939	128,516	162,895	137,690	82,209	**1,103,325**
Total current and not impaired	**937,758**	**452,251**	**364,759**	**283,212**	**138,362**	**86,343**	**2,262,685**
Past due but not impaired							
- 1 to 30 days overdue	4,251	8,945	4,590	2,051	930	-	**20,767**
- 30 to 90 days overdue	414	4,469	3,048	430	-	-	**8,361**
- 90 to 180 days overdue	123	27	-	10	-	-	**160**
- 180 to 360 days overdue	6	-	-	-	-	-	**6**
Total past due but not impaired	**4,794**	**13,441**	**7,638**	**2,491**	**930**	**-**	**29,294**
Loans individually determined to be impaired (gross)							
- not overdue	173,965	-	-	-	-	-	**173,965**
- 30 to 90 days overdue	13,377	-	-	-	-	-	**13,377**
- 90 to 180 days overdue	3,334	-	-	-	-	-	**3,334**
- 180 to 360 days overdue	4,115	-	-	-	-	-	**4,115**
Total individually impaired loans	**194,791**	**-**	**-**	**-**	**-**	**-**	**194,791**
other impaired loans							
- not overdue	2,811	3,177	8,407	4,904	1,753	-	21,052
- 1 to 30 days overdue	1,134	600	232	94	104	-	2,164
- 30 to 90 days overdue	-	2,968	623	2,126	2,335	-	8,052
- 90 to 180 days overdue	35	6,665	2,401	510	2,447	-	12,058
- 180 – 360 days overdue	764	3,128	1,356	590	-	-	5,838
- more than 360 days overdue	-	474	-	290	-	-	764
Total other impaired loans	**4,744**	**17,012**	**13,019**	**8,514**	**6,639**	**-**	**49,928**
Total loans and advances to customers (before impairment)	**1,142,087**	**482,704**	**385,416**	**294,217**	**145,931**	**86,343**	**2,536,698**
Total provision	**(112,975)**	**(31,156)**	**(13,186)**	**(4,820)**	**(4,361)**	**-**	**(166,498)**
Total loans and advances to customers	**1,029,112**	**451,548**	**372,230**	**289,397**	**141,570**	**86,343**	**2,370,200**

8 Loans and Advances to Customers (Continued)

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

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Current and not impaired							
- Borrowers with credit history over two years	383,614	137,038	195,279	85,932	629	-	**802,492**
- New borrowers	577,053	249,289	168,567	139,319	83,911	58,456	**1,276,595**
Total current and not impaired	**960,667**	**386,327**	**363,846**	**225,251**	**84,540**	**58,456**	**2,079,087**
Past due but not impaired							
- 1 to 30 days overdue	790	7,225	1,286	1,309	306	-	**10,916**
- 30 to 90 days overdue	12	3,517	1,055	487	72	-	**5,143**
- 90 to 180 days overdue	-	37	-	-	42	-	**79**
- 180 to 360 days overdue	-	56	-	-	51	-	**107**
Total past due but not impaired	**802**	**10,835**	**2,341**	**1,796**	**471**	**-**	**16,245**
Loans individually determined to be impaired (gross)							
- not overdue	25,786	-	-	-	-	-	**25,786**
- 1 to 30 days overdue	5,586	-	-	-	-	-	**5,586**
- 90 to 180 days overdue	2,120	-	-	-	-	-	**2,120**
Total individually impaired loans	**33,492**	**-**	**-**	**-**	**-**	**-**	**33,492**
other impaired loans							
- not overdue	7,779	3,070	5,759	6,592	-	-	23,200
- 1 to 30 days overdue	-	354	317	65	-	-	736
- 30 to 90 days overdue	1,109	1,355	521	118	-	-	3,103
- 90 to 180 days overdue	-	5,137	1,790	1,780	-	-	8,707
- 180 – 360 days overdue	-	1,829	434	414	-	-	2,677
- more than 360 days overdue	-	158	-	-	-	-	158
Total other impaired loans	**8,888**	**11,903**	**8,821**	**8,969**	**-**	**-**	**38,581**
Total loans and advances to customers (before impairment)	**1,003,849**	**409,065**	**375,008**	**236,016**	**85,011**	**58,456**	**2,167,405**
Total provision	**(114,106)**	**(25,833)**	**(12,661)**	**(5,459)**	**(601)**	**-**	**(158,660)**
Total loans and advances to customers	**889,743**	**383,232**	**362,347**	**230,557**	**84,410**	**58,456**	**2,008,745**

8 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

In thousands of GEL	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Small and medium enterprises**	**Others**	**Total**
Current and not impaired						
- Borrowers with credit history over two years	391,309	126,479	168,788	77,591	-	**764,167**
- New borrowers	305,640	141,677	75,456	61,015	39,530	**623,318**
Total current and not impaired	**696,949**	**268,156**	**244,244**	**138,606**	**39,530**	**1,387,485**
Past due but not impaired						
- 1 to 30 days overdue	54	4,205	3,754	249	-	**8,262**
- 30 to 90 days overdue	-	1,791	1,717	1,344	-	**4,852**
Total past due but not impaired	**54**	**5,996**	**5,471**	**1,593**	**-**	**13,114**
Loans individually determined to be impaired (gross)						
- not overdue	81,824	-	-	-	-	**81,824**
- 1 to 30 days overdue	12,807	-	-	-	-	**12,807**
- 30 to 90 days overdue	1,538	-	-	-	-	**1,538**
- 90 to 180 days overdue	2,776	-	-	-	-	**2,776**
- 180 – 360 days overdue	6,395	-	-	-	-	**6,395**
Total individually impaired loans	**105,340**	**-**	**-**	**-**	**-**	**105,340**
other impaired loans						
- not overdue	6,614	1,706	3,997	4,138	-	**16,455**
- 1 to 30 days overdue	-	1,423	200	2,838	-	**4,461**
- 30 to 90 days overdue	-	1,276	1,114	749	-	**3,139**
- 90 to 180 days overdue	2,413	3,785	3,101	4,748	-	**14,047**
- 180 – 360 days overdue	189	1,820	1,937	274	-	**4,220**
- more than 360 days overdue	-	148	-	-	-	**148**
Total other impaired loans	**9,216**	**10,158**	**10,349**	**12,747**	**-**	**42,470**
Total loans and advances to customers (before impairment)	**811,559**	**284,310**	**260,064**	**152,946**	**39,530**	**1,548,409**
Total provision	**(116,440)**	**(24,527)**	**(15,924)**	**(10,563)**	**-**	**(167,454)**
Total loans and advances to customers	**695,119**	**259,783**	**244,140**	**142,383**	**39,530**	**1,380,955**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period.

The tables above show analysis of loan portfolio based on credit quality. The Group's policy for credit risk management purposes is to classify each loan as 'not impaired' until specific objective evidence of impairment of the loan is identified. The primary factors by which the Group considers a loan as impaired are: overdue status of loan, financial position of a borrower and fair value of related collateral. The Group conducts impairment analysis of each individual loan on a quarterly basis.

Past due but not impaired loans include overdue loans from 'Standard' and 'Watch' credit risk category. Where 'Standard' is defined as loans extended to borrowers with good financial standing and good track record for repayments, and 'Watch' is defined as adequately secured loans, for which the Bank identifies the probability of worsening the borrowers' financial standing.

8 Loans and Advances to Customers (Continued)

Loans individually determined to be impaired include all loans for which amount of IFRS impairment provision was assessed individually and, at the same time, such loans do not fall in Standard and Watch categories.

The overdue amounts reported throughout the table represent the total balance of loans, not only the particular instalment (s) that is overdue.
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are the following:

- Real estate properties,
- inventory and equipment,
- cash covers,
- third party guarantees.

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

The effect of collateral at 31 December 2012:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	774,701	1,873,588	367,386	203,772
Consumer loans	300,655	744,061	182,049	6,555
Mortgage loans	363,332	999,838	22,084	6,705
Loans to small and medium enterprises	271,350	789,728	22,867	6,256
Micro loans	57,368	124,177	88,563	775
Others	81,758	81,990	4,585	4,412
Total	**1,849,164**	**4,613,382**	**687,534**	**228,475**

The effect of collateral at 31 December 2011:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	775,932	3,219,868	227,917	111,416
Consumer loans	217,830	608,937	191,235	4,570
Mortgage loans	358,019	929,690	16,989	5,453
Loans to small and medium enterprises	224,275	767,600	11,741	4,202
Micro loans	34,177	83,751	50,834	153
Others	58,456	58,456	-	-
Total	**1,668,689**	**5,668,302**	**498,716**	**125,794**

The effect of collateral at 31 December 2010:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	601,256	1,762,153	210,303	101,575
Consumer loans	169,060	482,754	115,250	5,213
Mortgage loans	245,602	689,284	14,462	8,780
Loans to small and medium enterprises	147,414	579,136	5,532	2,336
Others	39,530	39,530	-	-
Total	**1,202,862**	**3,552,857**	**345,547**	**117,904**

The effect of collateral is determined by comparison of fair value of collateral to gross loans and advances outstanding at the reporting date.

8 Loans and Advances to Customers (Continued)

The Group's internal appraiser performed physical inspection of pledged real estate and estimated the fair value of real estate at the balance sheet date using primarily market comparison method. Fair value of inventory, equipment and other assets was determined by the Group's credit department using the Group's internal guidelines.

Refer to Note 39 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 35. Information on related party balances is disclosed in Note 41.

9 Investment Securities Available for Sale

In thousands of GEL	**2012**	**2011**	**2010**
Certificates of Deposit of National Bank of Georgia	187,551	168,537	126,148
Ministry of Finance of Georgia Treasury Bills	19,210	61,014	86,841
Georgian Government notes	196,004	32,942	-
Total debt securities	**402,765**	**262,493**	**212,989**
Corporate shares – unquoted	1,812	1,812	1,766
Corporate shares – quoted (VISA Inc)	3,156	2,131	1,568
Total investment securities available for sale	**407,733**	**266,436**	**216,323**

Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale. Therefore, these investments are carried at cost of GEL 1,812 thousand (2011: GEL 1,812 thousand; 2010: GEL 1,766 thousand). The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

At 31 December 2012 investment securities available for sale carried at GEL 54,800 have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2011: nil; 2010: GEL 58,463 thousand). Refer to Note 23.

None of the debt securities available for sale are overdue or impaired.

The movements in investment securities available for sale are as follows:

In thousands of GEL	**2012**	**2011**	**2010**
Carrying amount at 1 January	**266,436**	**216,323**	**3,619**
Purchases	813,864	646,538	483,844
Disposals	(90,857)	(47,815)	(38,461)
Redemption at maturity	(599,913)	(571,104)	(236,411)
Revaluation	528	1,277	(286)
Interest income accrued (Note 30)	27,211	23,253	10,317
Interest income received	(9,536)	(2,036)	(6,299)
Impairment	-	-	-
Carrying amount at 31 December	**407,733**	**266,436**	**216,323**

At 31 December 2012 the principal equity investment securities available for sale are:

Name	**Nature of business**	**Country of registration**	**Carrying value**		
			2012	**2011**	**2010**
JSC GRDC	Property development	Netherlands Antilles	1,502	1,502	1,502
Visa Inc.	Card Processing	USA	3,156	2,131	1,568
Other			310	310	264
Total			**4,968**	**3,943**	**3,334**

10 Investment Securities Held to Maturity

In thousands of GEL	2012	2011	2010
Georgian Government notes	-	28,956	28,986
Total investment securities held to maturity	**-**	**28,956**	**28,986**

The movement in investment securities held to maturity is as follows:

In thousands of GEL	2012	2011	2010
Gross amount at 1 January	**28,956**	**28,986**	**115,496**
Additions	5,000	-	27,921
Redemption at maturity	(33,000)	-	(115,496)
Interest income accrual (Note 30)	2,373	3,642	1,577
Interest income received	(3,329)	(3,672)	(512)
Gross amount at 31 December	**-**	**28,956**	**28,986**

Refer to Note 39 for the disclosure of the fair value of investment securities held to maturity. Interest rate analysis of investment securities held to maturity is disclosed in Note 35.

11 Other Financial Assets

In thousands of GEL	2012	2011	2010
Receivable on terminated leases	4,345	4,528	5,473
Prepayments for purchase of leasing assets	6,859	5,480	1,691
Receivables on credit card services and money transfers	3,349	1,025	596
Receivables on guarantees	10,890	575	475
Other	6,743	3,697	2,692
Less: Provision for impairment	(6,885)	(3,966)	(4,997)
Total other financial assets	**25,301**	**11,339**	**5,930**

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

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment at 1 January 2012	**3,966**	**-**	**3,966**
Provision for impairment/(release from provision) during the year	579	3,553	**4,132**
Amounts written off during the year as uncollectible	(658)	(736)	**(1,394)**
Recovery of amounts previously written off	-	181	**181**
Provision for impairment at 31 December 2012	**3,887**	**2,998**	**6,885**

11 Other Financial Assets (Continued)

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

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment at 1 January 2011	**4,639**	**358**	**4,997**
Provision for impairment/(release from provision) during the year	755	(358)	**397**
Amounts written off during the year as uncollectible	(1,428)	-	**(1,428)**
Provision for impairment at 31 December 2011	**3,966**	**-**	**3,966**

Movements in the provision for impairment of other financial assets during 2010 are as follows:

In thousands of GEL	Receivables on terminated leases	Receivables on guarantees	Other	Total
Provision for impairment at 1 January 2010	**4,206**	**2,604**	**78**	**6,888**
Provision for impairment during the year	433	-	280	**713**
Amounts written off during the year as uncollectible	-	(2,604)	-	**(2,604)**
Provision for impairment at 31 December 2010	**4,639**	**-**	**358**	**4,997**

Analysis by credit quality of other financial receivables is as follows:

In thousands of GEL	**2012**	**2011**	**2010**
Current and not impaired			
- Prepayments for purchase of leasing assets	6,859	5,480	1,691
- Receivables on credit card services and money transfers	3,349	1,025	596
- Receivables on guarantees	10.890	575	475
- Other	3,873	3,697	2,334
Total current and not impaired	**24,971**	**10,777**	**5,096**
Receivables individually determined to be impaired (gross)			
- Receivables on terminated leases	4,345	4,528	5,473
- Other receivables	2,870	-	358
Total individually impaired (gross)	**7,215**	**4,528**	**5,831**
Less impairment provision	**(6,885)**	**(3,966)**	**(4,997)**
Total other financial assets	**25,301**	**11,339**	**5,930**

Receivables on terminated leases are under-collateralised, estimated fair value of collateral on these equals GEL 472 thousand (2011: GEL 636 thousand; 2010: GEL 921 thousand). The remaining assets are not collateralized.

12 Investments in Finance Lease

Investments in finance lease of GEL 26,377 thousand (2011: GEL 21,979 thousand; 2010: GEL 9,681 thousand) are represented by leases of equipment. Financial lease receivables are collateralised by leased equipment.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of GEL	Due in 1 year	Due between 2 and 5 years	Total
Finance lease payments receivable at 31 December 2012	**18,616**	**15,418**	**34,034**
Unearned finance income	(4,629)	(2,914)	(7,543)
Impairment loss provision	(71)	(43)	(114)
Present value of lease payments receivable at 31 December 2012	**13,916**	**12,461**	**26,377**
Finance lease payments receivable at 31 December 2011	**14,110**	**15,742**	**29,852**
Unearned finance income	(4,209)	(3,556)	**(7,765)**
Impairment loss provision	(61)	(47)	**(108)**
Present value of lease payments receivable at 31 December 2011	**9,840**	**12,139**	**21,979**
Finance lease payments receivable at 31 December 2010	**7,401**	**5,807**	**13,208**
Unearned finance income	(1,798)	(1,215)	**(3,013)**
Impairment loss provision	(307)	(207)	**(514)**
Present value of lease payments receivable at 31 December 2010	**5,296**	**4,385**	**9,681**

At 31 December 2012 the estimated fair value of financial lease receivables was GEL 26,377 thousand (2011: GEL 21,979 thousand; 2010: GEL 9,681 thousand). Refer to Note 39.

Movements in the provision for impairment of net investment in finance lease are as follows:

In thousands of GEL	31 December 2012	31 December 2011	31 December 2010
Provision for impairment at the beginning of the year	**108**	**514**	**929**
(Recovery) / provision for impairment during the year	42	(174)	900
Amounts written off during the year as uncollectible	(27)	(212)	(1,203)
Transfer from receivable from terminated leases	(9)	(20)	(112)
Provision for impairment at the end of the year	**114**	**108**	**514**

12 Investments in Finance Lease (Continued)

Analysis by credit quality of net investment in finance lease are as follows:

In thousands of GEL	**31 December 2012**	**31 December 2011**	**31 December 2010**
Current and not impaired			
- Customers with more than two year experience	7,044	4,525	3,342
- New customers	15,365	16,802	2,893
Total current and not impaired	**22,409**	**21,327**	**6,235**
Past due but not impaired			
- Less than 90 days overdue	872	719	853
- 180 days to 360 days overdue	6	41	14
Total past due but not impaired	**878**	**760**	**867**
Individually impaired gross	**3,204**	**-**	**3,093**
Total investment in finance lease- gross	**26,491**	**22,087**	**10,195**
Impairment loss provision	(114)	(108)	(514)
Total net investment in finance lease	**26,377**	**21,979**	**9,681**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual lease by the reporting date. The Group' s policy is to classify each lease as "current and not impaired" until specific objective evidence of impairment of the lease is identified. The primary factors that the Bank considers whether a lease is impaired are deterioration of financial position of lessee, its overdue status and realisability of the leased asset.

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The effect of collateral at 31 December 2012:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	24,670	51,590	1,821	221
Total	**24,670**	**51,590**	**1,821**	**221**

The effect of collateral at 31 December 2011:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	21,023	37,949	1,064	899
Total	**21,023**	**37,949**	**1,064**	**899**

12 Investments in Finance Lease (Continued)

The effect of collateral at 31 December 2010:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	9,756	28,229	439	265
Total	**9,756**	**28,229**	**439**	**265**

13 Other Assets

In thousands of GEL	2012	2011	2010
Inventories of repossessed collateral	56,316	82,317	80,228
Prepayments for other assets	3,401	3,350	1,332
Inventories	3,383	2,293	1,646
Assets repossessed from terminated leases	1,852	867	2,071
Prepayments for construction in progress	905	2,131	396
Prepaid taxes other than income tax	528	2,193	5,758
Assets purchased for leasing purposes	413	82	1,143
Prepaid insurance of leasing assets	347	316	156
Other	209	104	407
Total other assets	**67,354**	**93,653**	**93,137**

Inventories of repossessed collateral represents real estate assets and equipment acquired by the Group in settlement of overdue loans, other than those classified as investment property. The Group expects to dispose of the assets in the foreseeable future. The assets are not classified as held for sale under IFRS 5 because the Group has yet to start to actively market them for sale. Such assets are initially recognised at cost and subsequently measured at lower of cost and net realisable value.

14 Premises, Equipment and Intangible Assets

In thousands of GEL	Note	Premises and leasehold improve-ments	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2010		99,333	70,080	20,012	**189,425**	9,308	**198,733**
Accumulated depreciation/amortisation		(8,866)	(32,268)	-	**(41,134)**	(4,130)	**(45,264)**
Carrying amount at 1 January 2010		**90,467**	**37,812**	**20,012**	**148,291**	**5,178**	**153,469**
Additions		1,250	7,483	6,450	**15,183**	1,340	**16,523**
Transfers		50	-	(50)	**-**	-	**-**
Transfers to Investment Property		(310)	-	(2,196)	**(2,506)**	-	**(2,506)**
Reclassification to disposal group held for sale		-	(475)	-	**(475)**	(2,216)	**(2,691)**
Disposals		-	(3,513)	(157)	**(3,670)**	(48)	**(3,718)**
Impairment charge to profit and loss		-	(1,434)	(192)	**(1,626)**	-	**(1,626)**
Depreciation/amortisation charge		(4,034)	(8,703)	-	**(12,737)**	(1,164)	**(13,901)**
Elimination of accumulated depreciation/amortisation on disposals, and transfers to investment property		199	1,770	-	**1,969**	470	**2,439**
Carrying amount at 31 December 2010		**87,622**	**32,940**	**23,867**	**144,429**	**3,560**	**147,989**
Cost or valuation at 31 December 2010		100,323	72,141	23,867	**196,331**	8,384	**204,715**
Accumulated depreciation/amortisation		(12,701)	(39,201)	-	**(51,902)**	(4,824)	**(56,726)**
Carrying amount at 31 December 2010		**87,622**	**32,940**	**23,867**	**144,429**	**3,560**	**147,989**
Additions		4,647	11,799	6,870	**23,316**	4,759	**28,075**
Transfers		9,122	631	(9,753)	**-**	-	**-**
Transfers from Investment Property		3,188	-	-	**3,188**	-	**3,188**
Disposals		(786)	(3,339)	(1,392)	**(5,517)**	(54)	**(5,571)**
Increase / (decrease) in value on revaluation		1,311	-	(481)	**830**	-	**830**
Acquisition of subsidiaries		5,093	1,317	671	**7,081**	773	**7,854**
Adjustment due to previous recognition of disposal group held for sale (net of depreciation and amortisation)		-	1,299	-	**1,299**	2,216	**3,515**
Depreciation/amortisation charge		(3,898)	(9,587)	-	**(13,485)**	(1,210)	**(14,695)**
Elimination of accumulated depreciation/amortisation on disposals, transfers to investment property and reclassification to disposal group held for sale		250	2,488	-	**2,738**	20	**2,758**
Carrying amount at 31 December 2011		**106,549**	**37,548**	**19,782**	**163,879**	**10,064**	**173,943**
Cost or valuation at 31 December 2011		124,851	86,677	19,782	**231,310**	16,272	**247,582**
Accumulated depreciation/amortisation including accumulated impairment loss		(18,302)	(49,129)	-	**(67,431)**	(6208)	**(73,639)**
Carrying amount at 31 December 2011		**106,549**	**37,548**	**19,782**	**163,879**	**10,064**	**173,943**
Additions		1,892	16,533	23,969	**42,394**	10,750	**53,144**
Transfers		15,751	309	(16,060)	**-**	-	**-**
Transfers to Investment Property		(2,418)	-	-	**(2,418)**	-	**(2,418)**
Disposals		(2,149)	(5,478)	(609)	**(8,236)**	(16)	**(8,252)**
Transfer to Inventory		-	(309)	-	**(309)**	-	**(309)**
Increase / (decrease) in value on revaluation		1,585	-	8,928	**10,513**	-	**10,513**
Impairment charge to profit and loss		(769)	-	-	**(769)**	(1)	**(770)**
Depreciation/amortisation charge		(4,275)	(15,360)	-	**(19,635)**	(2,015)	**(21,650)**
Elimination of accumulated depreciation/amortisation on disposals, and transfers to investment property		1,853	5,284	-	**7,137**	35	**7,172**
Carrying amount at 31 December 2012		**118,019**	**38,527**	**36,010**	**192,556**	**18,817**	**211,373**
Cost or valuation at 31 December 2012		138,744	97,732	36,010	**272,486**	27,005	**299,491**
Accumulated depreciation/amortisation including accumulated impairment loss		(20,724)	(59,206)	-	**(79,930)**	(8,186)	**(88,116)**
Carrying amount at 31 December 2012		**118,020**	**38,526**	**36,010**	**192,556**	**18,819**	**211,375**

14 Premises, Equipment and Intangible Assets (Continued)

Depreciation and amortisation charge presented on the face of the consolidated statement of total comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises.

Premises have been revalued to market value at 6 July 2012. The valuation was carried out by an independent firm of valuers which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was discounted cash flow, integrated cost estimation and sales comparison method. Fair values were estimated using appropriate valuation techniques, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifics of the estimated property.

Management considers that the fair value has not changed significantly between 6 July and 31 December 2012.

At 31 December 2012 the carrying amount of premises would have been GEL 87,957 thousand (2011: GEL 78,071 thousand; 2010: GEL 70,220 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2012 the carrying amount of construction in progress would have been GEL 20,736 thousand (2011: GEL 13,278 thousand; 2010: GEL 18,001 thousand) had the assets been carried at cost less impairment losses.

15 Investment Properties

In thousands of GEL	**2012**	**2011**	**2010**
Investment properties at cost as at 1 January	**27,082**	**27,742**	**9,785**
Transfer from property, plant and equipment	2,418	-	2,506
Repossessed assets from foreclosed loans	19,230	8,988	15,935
Transfer to finance lease	-	(1,805)	(223)
Disposals	(14,296)	(4,389)	-
Transfer to property, plant and equipment	-	(3,188)	-
Elimination of depreciation on disposal	324	127	-
depreciation charge	(453)	(393)	(261)
Investment properties as at 31 December	**34,305**	**27,082**	**27,742**

Land is not depreciated. Depreciation on other items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 30 to 50 years. Residual values of investment properties are estimated to be nil.

At 31 December 2012, investment properties comprised of 10 lots (2011: 11 lots) of land and 22 buildings (2011: 28 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 34,928 thousand (2011: GEL 37,966 thousand; 2010: GEL 41,914 thousand). For details behind valuation refer to note 3.

16 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In thousands of GEL	Note	2012	2011	2010
Carrying amount at 1 January		**2,726**	**1,262**	**1,958**
Addition from acquisition of subsidiary	42	-	769	-
Transfer on de-classification of non-current assets previously held for sale		-	695	-
Transfer to non-current assets held for sale		-	-	(696)
Carrying amount at 31 December		**2,726**	**2,726**	**1,262**

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

In thousands of GEL	2012	2011	2010
JSC Bank Constanta	769	769	-
JSC United Financial Corporation	695	695	-
LLC TBC Kredit	1,262	1,262	1,262
Total carrying amount of goodwill	**2,726**	**2,726**	**1,262**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by Management covering a five-year period.

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are after-tax and reflect specific risks relating to the relevant CGUs.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC Bank Constanta had been 10% higher than Management's estimates, the Group would not need to reduce the carrying value of goodwill. Recoverable amount of JSC Constanta Bank CGU exceeds its carrying amount by GEL 39,850 thousand (2011: GEL 34,711 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 17.37% p.a. (2011: 18.06%).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10% higher than Management's estimates, the Group would not need to reduce the carrying value of goodwill (2011: impairment of GEL 283 thousand would be recognized). Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 5,774 thousand (2011: GEL 391 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 24.43% p.a.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 10% higher than Management's estimates, the Group would not need to reduce the carrying value of goodwill (2011: reduce carrying value of goodwill by GEL 1,262 thousand and carrying value of net assets by GEL 1,642 thousand; 2010: nil). Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 47,039 thousand (2011: GEL 2,671 thousand; 2010: GEL 11,291 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 15.3% p.a. (2011: 10.25% p.a; 2010: 13.98% p.a.).

17 Disposal Group Held for Sale

The assets and liabilities related to JSC United Financial Corporation have been presented as held for sale following the approval of the Group's management and shareholders on 20 December 2010 to sell company JSC United Financial Corporation, however in 2011 the Group amended the decision to sell and decided to retain the entity, therefore the Group discontinued classifying JSC UFC as held for sale and reversed the pre-tax loss recognised on the re-measurement of net assets of the company to the lower of carrying amount and fair value less costs to sell in the amount of GEL 1,519 thousand.

Major classes of non-current assets classified as held for sale (or disposal groups) are as follows:

In thousands of GEL	**2010**
Assets of a disposal group held for sale:	
Current income tax prepayment	53
Deferred income tax asset	136
Other assets	235
Intangible assets	2,216
Premises and equipment	475
Total non-current assets classified as disposal groups	**3,115**

Major classes of liabilities directly associated with disposal groups held for sale are as follows:

In thousands of GEL	**2010**
Other liabilities	300
Total liabilities directly associated with disposal groups held for sale	**300**

18 Due to Other Banks

In thousands of GEL	**2012**	**2011**	**2010**
Correspondent accounts and overnight placements of other banks	6,569	15,003	3,570
Term placements of banks and financial institutions	53,700	89,470	43,431
Short-term loans from banks	15,935	5,905	761
Total due to other banks	**76,204**	**110,378**	**47,762**

Refer to Note 39 for the disclosure of the fair value of the amounts due to other banks. Interest rate analysis, liquidity analyses and geographical analyses of due to other banks are disclosed in Note 35.

19 Customer Accounts

In thousands of GEL	**2012**	**2011**	**2010**
State and public organisations			
- Current/settlement accounts	72,638	103,619	56,678
- Term deposits	225,926	70,887	11,618
Other legal entities			
- Current/settlement accounts	635,181	506,432	347,462
- Term deposits	155,112	219,436	97,610
Individuals			
- Current/demand accounts	386,737	354,582	350,228
- Term deposits	1,011,350	744,300	501,755
Total customer accounts	**2,486,944**	**1,999,256**	**1,365,352**

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2012		**2011**		**2010**	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Individual	1,398,087	56%	1,098,882	55%	851,983	62%
Energy	210,801	8%	76,941	4%	39,664	3%
Transportation	196,090	8%	160,488	8%	47,647	3%
Trade and Service	186,783	8%	214,031	11%	140,273	10%
Construction	115,775	5%	97,080	5%	62,453	5%
Real Estate	57,890	2%	15,025	1%	11,197	1%
Food Industry	51,161	2%	28,780	1%	24,200	2%
Consumer Goods and Automobile Trading	42,658	2%	36,649	2%	25,959	2%
Communication	19,135	1%	32,990	2%	31,356	2%
Manufacturing	18,869	1%	5,696	0%	14,135	1%
Oil and Gas	17,639	1%	8,156	0%	12,384	1%
Agriculture	11,374	0%	5,895	0%	11,530	1%
Mining	5,102	0%	11,765	1%	2,532	0%
Other	155,580	6%	206,878	10%	90,039	7%
Total customer accounts	**2,486,944**	**100%**	**1,999,256**	**100%**	**1,365,352**	**100%**

At 31 December 2012 the Group had 78 customers (2011: 64 customers; 2010: 10 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 758,428 thousand (2011: GEL 615,557 thousand; 2010: GEL 75,449 thousand) or 30% (2011: 31%; 2010: 9%) of total customer accounts.

At 31 December 2012 included in customer accounts are deposits of GEL 3,572 thousand and GEL 33,135 thousand (2011: GEL 16,543 thousand and GEL 31,307 thousand; 2010: GEL 9,840 thousand and GEL 87,058 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 37.

Refer to Note 39 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 35. Information on related party balances is disclosed in Note 41.

20 Provisions for Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In thousands of GEL	**Credit related commitments and performance guarantees**	**Other**	**Total**
Carrying amount at 1 January 2010	**3,789**	**1,500**	**5,289**
Additions recorded in profit or loss	1,992	1,100	3,092
Amounts written off during the year	-	(1,500)	**(1,500)**
Carrying amount at 31 December 2010	**5,781**	**1,100**	**6,881**
Additions recorded in profit or loss	1,353	200	1,553
Carrying amount at 31 December 2011	**7,134**	**1,300**	**8,434**
Additions less releases recorded in profit or loss	1,605	1,700	3,306
Utilisation of provision	(5,565)	-	(5,565)
Carrying amount at 31 December 2012	**3,174**	**3,000**	**6,174**

Credit related commitments and performance guarantees: Provision was created against losses incurred on financial and performance guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

Provisions for liabilities, charges, performance guarantees and credit related commitments are expected to be fully utilised within twelve months after the year-end.

21 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of GEL	**Note**	**2012**	**2011**	**2010**
Derivative financial liabilities	38	7,139	5,152	300
Trade payables		5,688	2,210	1,953
Security deposits for finance lease		3,388	1,770	1,073
Debit or credit card payables		1,166	274	36
Other accrued liabilities		2,081	1,899	570
Total other financial liabilities		**19,462**	**11,305**	**3,932**

Refer to Note 39 for disclosure of the fair value of other financial liabilities.

22 Other Liabilities

Other liabilities comprise the following:

In thousands of GEL	**2012**	**2011**	**2010**
Accrued employee benefit costs	13,412	12,978	9,732
Advances received	534	1,986	215
Liabilities under customer loyalty programme	1,542	923	537
Taxes payable other than on income	1,337	468	7,661
Other	3,919	3,050	1,536
Total other liabilities	**20,744**	**19,405**	**19,681**

All of the above liabilities are expected to be settled less than twelve months after the year-end.

23 Other Borrowed Funds

At 31 December 2012, other borrowed funds comprised the following:

In thousands of GEL	Outstanding amount in original currency			Outstanding amount in GEL
	GEL	USD	EUR	
Foreign banks and International financial institutions	28,961	271,826	256	479,854
Local banks and financial institutions	52,707	6,574	-	63,599
Other financial institutions	-	596	2,968	7,466
Total	**81,668**	**278,996**	**3,224**	**550,919**

At 31 December 2011, other borrowed funds comprised the following:

In thousands of GEL	Outstanding amount in original currency			Outstanding amount in GEL
	GEL	USD	EUR	
Foreign banks and International financial institutions	18,186	292,860	2,617	513,006
Other financial institutions	-	743	1,631	4,766
Total	**18,186**	**293,603**	**4,248**	**517,772**

At 31 December 2010, other borrowed funds comprised the following:

In thousands of GEL	Outstanding amount in original currency			Outstanding amount in GEL
	GEL	USD	EUR	
Foreign banks and International financial institutions	4,398	123,390	18	223,186
Local banks and financial institutions	55,011	-	-	55,011
Other financial institutions	-	891	480	2,709
Total	**59,409**	**124,281**	**498**	**280,906**

Refer to Note 39 for the disclosure of the fair value of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 35. Information on related party balances is disclosed in Note 41.

24 Subordinated Debt

At 31 December 2012, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
International Financial Corporation	23-Apr-09	12-Nov-18	18,481	30,617
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,413	30,505
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	13-Dec-12	15-Apr-22	15,210	25,198
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jun-18	10,353	17,152
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,007	11,608
Total subordinated debt			**69,464**	**115,080**

At 31 December 2011, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	30-May-07	15-Apr-14	20,219	33,771
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,682	31,205
International Financial Corporation	23-Apr-09	12-Nov-18	18,632	31,120
Deutsche Investitions und Entwicklungsgesellschaft MBH	24-Feb-06	15-Feb-12	10,486	17,514
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jun-18	10,237	17,099
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,047	11,771
Total subordinated debt			**85,303**	**142,480**

24 Subordinated debt (Continued)

At 31 December 2010, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	30-May-07	15-Apr-14	20,191	35,795
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,611	32,993
International Financial Corporation	23-Apr-09	12-Nov-18	18,570	32,920
Deutsche Investitions und Entwicklungsgesellschaft MBH	24-Feb-06	15-Feb-12	10,534	18,675
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jun-18	10,348	18,345
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,042	12,484
International Financial Corporation	16-Dec-04	15-Dec-11	4,055	7,189
Total subordinated debt			**89,351**	**158,401**

The debt ranks after all other creditors in case of liquidation.

Refer to Note 39 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 41.

25 Share Capital

In thousands of GEL except for number of shares	Number of outstanding shares	Share capital	Share premium	Treasury shares	Total
At 1 January 2010	**150,000**	**15,000**	**201,723**	**-**	**216,723**
New shares issued	1,131	113	-	-	**113**
At 31 December 2010	**151,131**	**15,113**	**201,723**	**-**	**216,836**
New shares issued	579	58	1,585	-	**1,643**
At 31 December 2011	**151,710**	**15,171**	**203,308**	**-**	**218,479**
New shares issued	9,718	972	28,219	-	**29,191**
Treasury shares purchased	(9)	-	(26)	(1)	**(26)**
At 31 December 2012	**161,419**	**16,143**	**231,501**	**(1)**	**247,644**

The total authorised number of ordinary shares is 161,419 shares (2011: 151,710 shares; 2010: 151,131 shares). All issued ordinary shares are fully paid.

All ordinary shares have a nominal value of GEL 100 per share (2011: GEL 100 per share; 2010: GEL 100 per share) and rank equally. Each share, except the shares granted under share based payment scheme, carries one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

At the reporting date the entity also has 1,157 shares reserved for issuance under share based payment arrangement (2011: 2,718; 2010: nil). For share based payments refer to Note 26.

The Bank has not issued any dividends as at 31 December 2012 (2011: GEL 82.7 per share; 2010: nil).

26 Share Based Payments

In November 2005, the Supervisory Board of the Group resolved to award 2,834 options to purchase the Bank's ordinary shares to the Bank's top management. Each share option converts into one ordinary share of JSC TBC Bank on exercise at the nominal value of GEL 100 each. The options carry neither rights to dividends nor voting rights. Share options are subject to 5 year vesting period. The fair value of the share options as at the grant date was estimated at GEL 2,420 per share option. The valuation was carried out by the Bank's internal valuator. Management expensed granted share options over the vesting period within staff costs. The options were fully exercised as at 31 December 2010.

In May 2011, Supervisory Board of the bank approved a new Senior Management Bonus scheme for the years 2010 - 2012 and the Shareholders authorised 3,300 new shares in accordance with the scheme.

According to the scheme, each year, subject to defined performance and service conditions, certain number of the shares are awarded to the top management of the Bank and some of the middle managers. The shares are eligible to dividends but do not have voting rights. The shares cannot be sold or transferred to a third parties before 2014, however, the right to sell the shares will be granted and they will become voting shares before 2014 if:

- The Bank is listed on a stock exchange; or
- There is any other type of qualified sale of the Bank.

The Bank estimates that the fair value of the shares as at the grant date was GEL 2,837 per share. The valuation was carried out by an external valuator.

In GEL except for number of share options	**2012**	**2011**	**2010**
Cumulative number of options outstanding as at the beginning of the year	**2,179**	-	1,133
Number of options granted during the year	542	2,758	-
Number of options exercised	(1,564)	(579)	(1,133)
Cumulative number of options outstanding at the end of the year	**1,157**	**2,179**	**-**
Value at grant date per share option (GEL)	2,837	2,837	2,420
Expense recognised as staff cost during the year (GEL thousand)	**3,376**	**8,122**	**-**

Increase in equity on granted but unexercised shares resulting from the scheme enacted in May 2011 is accounted for under share based payment reserve which is equal to cumulative number of options outstanding at the end of the year multiplied by value as at grant date.

27 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year.

In thousands of GEL except for number of shares	Note	2012	2011	2010
Profit for the period attributable to the owners of the Bank		96,519	90,898	49,374
Weighted average number of ordinary shares in issue	25	**153,169**	151,343	150,094
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)		**630.1**	**600.6**	**329.0**

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential ordinary shares during the period:

In thousands of GEL except for number of shares	2012	2011	2010
Profit for the period attributable to the owners of the Bank	96,519	90,898	49,374
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	153,169	151,886	152,815
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**630.1**	**598.5**	**323.1**

28 Segment Analysis

The chief operating decision maker which is The Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. The operating segments have been determined based on these reports as follows:

- Retail – all retail customers of the Group.
- Corporate – customers as legal entities which have annual revenues of GEL 8 million or more or have been granted a loan of USD 1,500,000 or more. However a few other legal entity customers which have attractive potential for the Bank might also be assigned status of corporate customer.
- SME – legal entity customers that are not included either in the Micro or Corporate segment. The vast majority of such customers have been granted loans between USD 1,500,000 and USD 150,000 or have annual revenue of less than GEL 8 million.
- Micro - customers of Bank Constanta, that do not fall in the above categories and have been granted loans of USD 150,000 or less.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax. This measurement basis excludes the effects of certain expenses from the operating segments as disclosed in the relevant reconciliation below. Other information provided to The Board of Directors is measured in a manner consistent with that in these consolidated financial statements, except for the items presented in the relevant reconciliation below. The reconciling items are managed at the Group level and are not allocated to the segments for management and/or reporting purposes.

The reportable segments are the same as the operating segments.

The vast majority of the entity's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in note 35.

Segment information for the reportable segments of the Group for the years ended 31 December 2012, 2011 and 2010 is set out below:

In thousands of GEL	**Retail**	**Corporate**	**SME**	**Micro**	**Total**
31 December 2012					
External revenues:					
- Interest income on loans and advances to customers	189,942	148,720	38,486	37,101	**414,249**
- Fee and commission income	33,860	15,333	7,442	1,505	**58,140**
- Gains less losses from trading in foreign currencies	6,858	15,580	8,242	875	**31,555**
Revenue from external customers	**230,660**	**179,633**	**54,170**	**39,481**	**503,944**
External Expenses:					
- Interest expense on customer accounts	93,854	55,560	7,026	194	**156,634**
- Fee and commission expense	13,459	438	713	427	**15,037**
- Provision for loan impairment	16,298	1,190	1,198	4,468	**23,154**
- Provision for liabilities and charges	(1)	2,045	(438)	-	**1,606**
Expenses from external customers	**123,610**	**59,233**	**8,499**	**5,089**	**196,431**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**107,050**	**120,400**	**45,671**	**34,392**	**307,513**
31 December 2012					
Total gross loans and advances to customers reported	954,463	1,142,087	294,217	145,931	**2,536,698**
Total customer accounts reported	1,398,087	800,346	285,219	3,292	**2,486,944**
Total guarantees issued	253	249,194	23,677	-	**273,124**

28 Segment Analysis (Continued)

In thousands of GEL	Retail	Corporate	SME	Micro	Total
31 December 2011					
External revenues:					
– Interest income on loans and advances to customers	153,103	125,345	30,387	14,671	**323,506**
– Fee and commission income	24,777	12,249	5,934	842	**43,802**
– Gains less losses from trading in foreign currencies	6,765	12,478	6,176	-	**25,419**
Revenue from external customers	**184,645**	**150,072**	**42,497**	**15,513**	**392,727**
External Expenses:					
– Interest expense on customer accounts	68,713	32,882	3,566	226	**105,387**
– Fee and commission expense	10,729	382	467	146	**11,724**
– Provision for loan impairment	(601)	20,617	(4,282)	315	**16,049**
– Provision for liabilities and charges	9	1200	144	-	**1,353**
Expenses from external customers	**78,850**	**55,081**	**(105)**	**687**	**134,513**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**105,795**	**94,991**	**42,602**	**14,826**	**258,214**
31 December 2011					
Total gross loans and advances to customers reported	842,529	1,003,849	236,016	85,011	**2,167,405**
Total customer accounts reported	1,098,882	699,590	199,677	1,107	**1,999,256**
Total guarantees issued	2,063	285,957	34,243	-	**322,263**

In thousands of GELs	Retail	Corporate	SME	Total
31 December 2010				
External revenues:				
– Interest income on loans and advances to customers	122,128	99,399	25,847	**247,374**
– Fee and commission income	15,934	10,008	4,717	**30,659**
– Gains less losses from trading in foreign currencies	7,460	9,991	5,352	**22,803**
Revenue from external customers	**145,522**	**119,398**	**35,916**	**300,836**
External Expenses:				
– Interest expense on customer accounts	60,592	14,891	2,054	**77,537**
– Fee and commission expense	6,967	2,988	546	**10,501**
– Provision for loan impairment	11,526	19,331	463	**31,320**
– Provision for liabilities and charges	3	1,779	210	**1,992**
Expenses from external customers	**79,088**	**38,989**	**3,273**	**121,350**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**66,434**	**80,409**	**32,643**	**179,486**
31 December 2010				
Total gross loans and advances to customers reported	583,904	811,559	152,946	**1,548,409**
Total customer accounts reported	851,983	377,085	136,284	**1,365,352**
Total guarantees issued	241	130,309	15,327	**145,877**

28 Segment Analysis (Continued)

A reconciliation of adjusted profit before non-segmental income, administrative and other expenses and income tax is provided as follows:

In thousands of GEL	31 December 2012	31 December 2011	31 December 2010
Adjusted profit before non-segmental income, administrative and other expense and income tax	**307,513**	**258,214**	**179,486**
Non-segmental interest income	42,296	36,709	24,431
Non-segmental interest expense	(61,261)	(45,747)	(31,454)
Non-segmental net fee and commission expense	(3,793)	(3,370)	(1,104)
Non-segmental gains less losses from trading in foreign currencies	(6,315)	-	-
Non-segmental (provision for) / recovery of liabilities and charges	(1,700)	(200)	(1,100)
Net losses from derivative financial instruments	(3,804)	(4,987)	(300)
Foreign exchange translation gains less losses / (losses less gains)	7,617	394	(664)
Recovery of impairment / (impairment) of investment securities available for sale	(10)	116	(173)
(Losses) / Gains from disposal of investment securities available for sale	-	-	(166)
Recovery of impairment of investments in finance lease	(42)	174	(900)
(Provision for) / recovery of impairment of other financial assets	(4,132)	(397)	(713)
Recovery of impairment / (impairment) for assets classified as held for sale	-	1,519	(1,519)
Other operating income	19,772	9,923	8,972
Staff costs	(92,289)	(78,426)	(57,146)
Depreciation and amortisation	(22,103)	(15,088)	(14,162)
Administrative and other operating expenses	(69,440)	(51,744)	(47,276)
Profit before tax	**112,309**	**107,090**	**56,212**

Reportable segments' assets are reconciled to total assets as follows:

In thousands of GEL	31 December 2012	31 December 2011	31 December 2010
Total segment assets (loans and advances to customers)	2,370,200	2,008,745	1,380,955
Cash and cash equivalents	398,587	374,153	275,425
Due from other banks	345,603	291,009	74,736
Investment securities available for sale	407,733	266,436	216,323
Current income tax prepayment	10,135	-	2,500
Investment securities held to maturity	-	28,956	28,986
Other financial assets	25,301	11,339	5,930
Investments in finance leases	26,377	21,979	9,681
Other assets	67,354	93,653	93,137
Premises and equipment	192,556	163,879	144,429
Intangible assets	18,817	10,064	3,560
Investment properties	34,305	27,082	27,742
Goodwill	2,726	2,726	1,262
Assets of disposal group classified as held for sale	-	-	3,115
Total assets per statement of financial position	**3,899,694**	**3,300,021**	**2,267,781**

28 Segment Analysis (Continued)

Reportable segments' liabilities are reconciled to liabilities assets as follows:

In thousands of GEL	31 December 2012	31 December 2011	31 December 2010
Total segment liabilities (customer accounts)	2,486,944	1,999,256	1,365,352
Due to other banks	76,204	110,378	47,762
Other borrowed funds	550,919	517,772	280,906
Current income tax liability	-	14,162	-
Deferred income tax liability	20,143	8,048	7,294
Provisions for liabilities and charges	6,174	8,434	6,881
Other financial liabilities	19,462	11,305	3,932
Other liabilities	20,744	19,405	19,681
Subordinated debt	115,080	142,480	158,401
Liabilities of disposal group classified as held for sale	-	-	300
Total liabilities per statement of financial position	**3,295,670**	**2,831,240**	**1,890,509**

29 Other Reserves

	Revaluation reserve for		Cumulative currency translation reserve	Total other reserves
In thousands of GEL	Premises	Available for sale securities		
At 1 January 2010	**29,013**	**1,578**	**2,215**	**32,806**
Fair value of investments available for sale	-	(286)	-	(286)
Realised revaluation reserve	(2,129)	-	-	(2,129)
Currency translation	-	-	1,062	1,062
Income tax effects	319	41	-	360
At 31 December 2010	**27,203**	**1,333**	**3,277**	**31,813**
Fair value of investments available for sale	-	1,277	-	1,277
Revaluation reserve	1,311	-	-	1,311
Currency translation	-	-	(904)	(904)
Income tax effects	(245)	(90)	-	(335)
At 31 December 2011	**28,269**	**2,520**	**2,373**	**33,162**
Fair value of investments available for sale	-	682	-	**682**
Revaluation reserve	10,513	-	-	**10,513**
Transfer of revaluation surplus on premises to retained earnings	(527)	-	-	**(527)**
Currency translation	-	-	(217)	**(217)**
Income tax effects	(1,520)	(154)	-	**(1,674)**
At 31 December 2012	**36,735**	**3,048**	**2,156**	**41,939**

Revaluation reserve for available for sale securities is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for premises and equipment is transferred to retained earnings when realised through sale or other disposal.

30 Interest Income and Expense

In thousands of GEL	2012	2011	2010
Interest income			
Loans and advances to customers	414,249	323,506	247,289
Investment securities available for sale (Note 9)	27,211	23,253	10,317
Due from other banks	6,960	6,113	8,766
Investment securities held to maturity (Note 10)	2,373	3,642	1,577
Investments in leases	5,734	3,438	3,856
Other	18	263	-
Total interest income	**456,545**	**360,215**	**271,805**
Interest expense			
Customer accounts	156,634	105,387	77,537
Other borrowed funds	42,551	28,181	14,117
Subordinated debt	13,226	14,497	15,437
Due to other banks	5,395	3,031	1,812
Other	89	38	88
Total interest expense	**217,895**	**151,134**	**108,991**
Net interest income	**238,650**	**209,081**	**162,814**

31 Fee and Commission Income and Expense

In thousands of GEL	2012	2011	2010
Fee and commission income			
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
- Card operations	26,844	19,337	11,436
- Guarantees issued	9,530	8,167	6,647
- Settlement transactions	10,006	7,638	6,162
- Cash transactions	4,092	4,111	3,916
- Foreign exchange operations	1,632	1,296	1,098
- Issuance of letters of credit	2,762	1,056	282
- Other	3,274	2,197	1,118
Total fee and commission income	**58,140**	**43,802**	**30,659**
Fee and commission expense			
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
- Card operations	9,657	6,500	3,671
- Guarantees received	3,625	4,752	4,682
- Settlement transactions	1,501	1,477	916
- Cash transactions	1,084	521	244
- Foreign exchange operations	62	28	67
- Other	2,901	1,816	2,025
Total fee and commission expense	**18,830**	**15,094**	**11,605**
Net fee and commission income	**39,310**	**28,708**	**19,054**

32 Other Operating Income

In thousands of GEL	2012	2011	2010
Gain from sale of inventories of repossessed collateral	6,836	-	-
Revenues from sales of pay-box terminals	5,154	3,094	1,722
Revenues from operational leasing	3,292	2,876	1,804
Administrative fee income from international financial institutions	1,163	799	1,040
Revenues from non-credit related fines	434	1,610	461
Net gain on terminated finance lease contracts	108	218	815
Gain on disposal of premises and equipment	-	688	-
Fee income for temporary retention of repossessed collateral	-	-	1,887
Other	2,785	638	1,243
Total other operating income	**19,772**	**9,923**	**8,972**

Revenues from card processing operations and revenues from banking system services are included in section other of other operating income.

33 Administrative and Other Operating Expenses

In thousands of GEL	Note	2012	2011	2010
Advertising and marketing services		15,183	10,014	4,794
Occupancy and rent		10,295	8,429	6,810
Professional services		10,054	7,932	6,352
Communications and supply		3,199	2,566	2,371
Taxes other than on income		3,363	2,435	1,519
Utility services		3,036	2,381	2,011
Stationery and other office expenses		2,958	1,790	1,056
Intangible asset maintenance		2,605	1,590	843
Premises and equipment maintenance		1,904	971	1,759
Transportation and vehicle maintenance		1,687	1,518	1,008
Loss on disposal of premises and equipment		1,658	-	1,256
Security services		1,522	1,327	858
Insurance		1,440	1,366	1,400
Write-down of current assets to fair value less costs to sell		1,317	1,281	9,394
Business trip expenses		1,104	753	423
Charity		911	982	694
Personal training and recruitment		574	722	209
Other		6,630	5,687	4,519
Total administrative and other operating expenses		**69,440**	**51,744**	**47,276**

34 Income Taxes

Income tax expense comprises the following:

In thousands of GEL	2012	2011	2010
Current tax charge	4,077	14,904	628
Deferred tax charge	10,421	561	6,149
Income tax expense for the year	**14,498**	**15,465**	**6,777**

The income tax rate applicable to the majority of the Group's income is 15% (2011: 15%; 2010: 15%). The income tax rate applicable to the majority of subsidiaries income ranges from 15% to 20% (2011: 15% - 20%; 2010: 15% - 20%).

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of GEL	2012	2011	2010
Profit before tax from continuing operations	**112,309**	**107,090**	**56,212**
Theoretical tax charge at statutory rate (2012: 15%; 2011: 15%; 2010: 15%)	16,846	16,064	8,432
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income which is exempt from taxation	(4,756)	(4,012)	(1,995)
- Non deductible expenses and other differences	2,408	3,413	340
Income tax expense for the year	**14,498**	**15,465**	**6,777**

34 Income Taxes (Continued)

Differences between IFRS and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2011: 15%; 2010: 15%) for Georgia and 20% for Azerbaijan (2011: 20%; 2010: 20%).

In thousands of GEL	**31 December 2011**	**(Charged)/ credited to profit or loss**	**Charged directly to other comprehensive income**	**31 December 2012**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(13,790)	(1,651)	(1,520)	(16,961)
Loan impairment provision	9,752	(10,586)		(834)
Fair valuation of investment securities available for sale	(407)	88	(154)	(473)
Tax loss carry forwards	198	480		678
Other financial asstes	-	1,320		1,320
Other assets	(276)	1,141		865
Investment in leases	3	(200)		(197)
Investment property	(2,382)	(194)		(2,576)
Other liabilities	(1,146)	(819)		(1,965)
Net deferred tax asset/(liability)	**(8,048)**	**(10,421)**	**(1,674)**	**(20,143)**

In thousands of GEL	**31 December 2010**	**(Charged)/ credited to profit or loss**	**Charged directly to other comprehensive income**	**31 December 2011**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(17,180)	3,635	(245)	(13,790)
Loan impairment provision	5,741	4,011	-	9,752
Fair valuation of investment securities available for sale	(235)	(82)	(90)	(407)
Tax loss carry forwards	5,212	(5,014)	-	198
Other assets	1,674	(1,950)	-	(276)
Investment in leases	64	(61)	-	3
Investment property	(2,610)	228	-	(2,382)
Other liabilities	176	(1,322)	-	(1,146)
Net deferred tax asset/(liability)	**(7,158)**	**(561)**	**(335)**	**(8,048)**

34 Income Taxes (Continued)

In thousands of GEL	31 December 2009	(Charged)/ credited to profit or loss	Credited to other comprehensive income or directly into equity	31 December 2010
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(18,226)	727	319	(17,180)
Loan impairment provision	4,936	805	-	5,741
Fair valuation of investment securities available for sale	(276)	-	41	(235)
Tax loss carry forwards	12,892	(7,680)	-	5,212
Other assets	131	1,543	-	1,674
Investment in leases	78	(14)	-	64
Investment property	(614)	(1,996)	-	(2,610)
Other liabilities	(290)	466	-	176
Net deferred tax asset/(liability)	**(1,369)**	**(6,149)**	**360**	**(7,158)**

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

Difference between deferred tax liabilities as at 31 December 2010 presented in the consolidated statement of financial position as and above reconciliation is due to deferred tax asset of the disposal group classified as held for sale amounting to GEL 136 thousand (note 17).

35 Financial and Other Risk Management

The risk management function within the Group is carried out in respect of the following risks: credit, geographical, market which includes principally currency and interest rate risks, liquidity, operational and legal risks as well as insurance risk arising on performance guarantees issued. The primary objectives of the risk management function are to (i) Contribute to the development of the Group's business strategy by ensuring risk adjusted profitability and (ii) Guarantee the Group's sustainable development through the implementation of an efficient systems for the risk analysis, measurement and monitoring.

In order to ensure effective risk management structure, the Bank has introduced Supervisory Board level Risk, Ethics and Compliance committee. The decision was made in accordance with best practices and Basel II requirements. Primary responsibility of this committee will be to: Review, assess, and recommend any actions to be taken by the Supervisory Board regarding the Bank's risk management strategy, risk appetite and tolerance, as well as risk management system and risk policies. This includes credit, market, liquidity, operational, compliance, reputational, and other risks of the Bank. The committee also reviews and approves large exposures to customers. Other main responsibilities of the Committee are to commit the Bank to the highest standards of ethical behaviour and to oversee the compliance function of the Bank.

The committee members are IFI representatives on the Supervisory Board.

Credit risk. The Bank is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets or issuing guarantees.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position as well as for financial and performance guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 37.

The subcategories of credit risk are: counterparty credit risk (default risk), concentration risk (large exposures, industry concentration and indirect concentration risks arising from credit risk mitigation techniques) and currency induced credit risks.

For efficiently management of credit risk the adequate policies, and procedures are in place. The credit policies establish framework for lending decisions reflecting the Bank's tolerance for credit risk.

The credit risks are managed at the transaction and portfolio level. At the transaction level credit risk management includes: credit applications review, credit application rating and pricing review, approval of credits and monitoring. As for the Portfolio level – credit risk management includes: definition of the risk appetite, credit portfolio analysis, industry analysis and development of credit policies and instructions.

Loan Approval Committees are responsible to review credit applications and approve credit products. There are three different Loan Approval Committees that within the established loan approval limits, review and approve corporate, SME and retail loans. All of them are centralized at the Bank's Head Office. Loan Approval Committee consists of at least two persons with sufficient credit experience, votes in relation to the approval of a loan are divided equally between Sales and Risk Management Departments, Corporate Loans are in addition reviewed by the Credit Risk Management Department prior to presentation to Loan Approval Committee.

The Group has established portfolio monitoring systems in order to manage its credit exposure effectively. Reports are generated on a daily, weekly, monthly and quarterly basis in order to monitor the dynamics of loan portfolio of the Bank's business segments.

The Credit Risk Management Department analyses trends of the portfolio on a monthly basis, including total credit portfolio exposure, concentrations, maturities, volumes and performance of non-performing loans, write-offs and recoveries, and presents its findings to the Management Board. Furthermore, reports relating to the credit quality of the credit portfolio are presented to the Supervisory Board on a quarterly basis. The Group's credit risk management department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 8.

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

35 Financial and Other Risk Management (Continued)

Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets.

Geographical risk concentrations. Assets, liabilities, credit related commitments and performance guarantees have generally been based on the country in which the counterparty is located. Balances with Georgian counterparties actually outstanding to/from off-shore companies of these Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

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

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	216,913	160,598	21,076	**398,587**
Due from other banks	344,225	1,378	-	**345,603**
Loans and advances to customers	2,273,550	36,917	59,733	**2,370,200**
Investment securities available for sale	404,577	3,156	-	**407,733**
Investments in leases	26,377	-	-	**26,377**
Other financial assets	25,262	39	-	**25,301**
Total financial assets	**3,290,904**	**202,088**	**80,809**	**3,573,801**
Non-financial assets	**324,112**	**52**	**1,729**	**325,893**
Total assets	**3,615,016**	**202,140**	**82,538**	**3,899,694**
Liabilities				
Due to other banks	57,636	-	18,568	**76,204**
Customer accounts	2,245,785	239,433	1,726	**2,486,944**
Other borrowed funds	70,974	445,140	34,805	**550,919**
Other financial liabilities	18,679	297	486	**19,462**
Subordinated debt	-	115,080	-	**115,080**
Total financial liabilities	**2,393,074**	**799,950**	**55,585**	**3,248,609**
Non-financial liabilities	**45,666**	**112**	**1,283**	**47,061**
Total liabilities	**2,438,740**	**800,062**	**56,868**	**3,295,670**
Net balance sheet position	**1,176,276**	**(597,922)**	**25,670**	**604,022**
Credit related commitments and performance guarantees	**538,237**	**-**	**-**	**538,237**

35 Financial and Other Risk Management (Continued)

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

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	246,023	123,054	5,076	**374,153**
Due from other banks	290,074	935	-	**291,009**
Loans and advances to customers	1,963,564	-	45,181	**2,008,745**
Investment securities available for sale	264,305	2,131	-	**266,436**
Investment securities held to maturity	28,956	-	-	**28,956**
Investments in leases	21,979	-	-	**21,979**
Other financial assets	11,339	-	-	**11,339**
Total financial assets	**2,826,240**	**126,120**	**50,257**	**3,002,617**
Non-financial assets	**296,310**	**36**	**1,058**	**297,404**
Total assets	**3,122,550**	**126,156**	**51,315**	**3,300,021**
Liabilities				
Due to other banks	85,698	-	24,680	**110,378**
Customer accounts	1,916,520	82,654	82	**1,999,256**
Other borrowed funds	17,973	469,074	30,725	**517,772**
Other financial liabilities	5,603	5,420	282	**11,305**
Subordinated debt	-	142,480	-	**142,480**
Total financial liabilities	**2,025,794**	**699,628**	**55,769**	**2,781,191**
Non-financial liabilities	**49,502**	**7**	**540**	**50,049**
Total liabilities	**2,075,296**	**699,635**	**56,309**	**2,831,240**
Net balance sheet position	**1,047,254**	**(573,479)**	**(4,994)**	**469,738**
Credit related commitments and performance guarantees	**580,274**	**-**	**-**	**580,274**

35 Financial and Other Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2010 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	147,513	119,941	7,971	**275,425**
Due from other banks	59,471	1,153	14,112	**74,736**
Loans and advances to customers	1,347,189	-	33,766	**1,380,955**
Investment securities available for sale	214,755	1,568	-	**216,323**
Investment securities held to maturity	28,986	-	-	**28,986**
Investments in leases	9,681	-	-	**9,681**
Other financial assets	5,930	-	-	**5,930**
Total financial assets	**1,813,525**	**122,662**	**55,849**	**1,992,036**
Non-financial assets	**275,745**	**-**	**-**	**275,745**
Total assets	**2,089,270**	**122,662**	**55,849**	**2,267,781**
Liabilities				
Due to other banks	45,410	-	2,352	**47,762**
Customer accounts	1,365,352	-	-	**1,365,352**
Other borrowed funds	57,607	221,045	2,254	**280,906**
Other financial liabilities	3,932	-	-	**3,932**
Subordinated debt	-	158,401	-	**158,401**
Total financial liabilities	**1,472,301**	**379,446**	**4,606**	**1,856,353**
Non-financial liabilities	**34,156**	**-**	**-**	**34,156**
Total liabilities	**1,506,457**	**379,446**	**4,606**	**1,890,509**
Net balance sheet position	**582,813**	**(256,784)**	**51,243**	**377,272**
Credit related commitments and performance guarantees	**257,802**	**-**	**-**	**257,802**

Market risk. The Group takes on exposure to market risks. Market risks principally arise from open positions in (a) currency, and (b) interest rate, both of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

Currency risk. Currency risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. At the bank standalone level, the NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain such positions within 20% of the Bank's regulatory capital. As at 31 December 2012, the Bank maintained a balance sheet open foreign currency position of 5.7% of regulatory capital (2011: 0.03%; 2010: 3.98%) and an aggregate open currency position of 4.3% of regulatory capital (2011: negative1.65%; 2010: 3.95%). The ALCO has set limits on the level of exposure by currency as well as on aggregate exposure for both overnight and intra-day positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

In order to further increase effectiveness of currency risk management the Bank has updated currency risk management policy and introduced relevant methodologies as well as effective limit management system.

35 Financial and Other Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

	At 31 December 2012			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	1,088,687	809,165	8,407	**287,929**
US Dollars	2,153,303	2,133,821	(3,294)	**16,188**
Euros	277,692	272,759	(4,802)	**131**
Other	54,119	32,864	-	**21,255**
Total	**3,573,801**	**3,248,609**	**311**	**325,503**

	At 31 December 2011				At 31 December 2010			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	829,932	616,346	8,407	**221,992**	564,048	467,570	364	**96,842**
US Dollars	1,861,326	1,826,247	(53,967)	**(18,888)**	1,214,034	1,187,328	(664)	**26,042**
Euros	244,902	258,868	13,617	**(349)**	186,447	186,821	-	**(374)**
Other	66,457	79,730	32,109	**18,836**	27,507	14,634	-	**12,873**
Total	**3,002,617**	**2,781,191**	**166**	**221,591**	**1,992,036**	**1,856,353**	**(300)**	**135,383**

The above provided quantitative disclosure of the Group's currency risk is based on information provided internally to the management. For analyses of currency risk management assumes that provision for impairment of loans and advances to customers is assumed to be entirely attributable to loans and advances to customers denominated in GEL.

To assess the Group's currency risk, a Value at Risk (VaR) analysis is performed on a monthly basis at 99.9% Confidence Interval. The holding period is determined to be one month and the look-back period is three years. As at 31 December 2012 VAR amounted to GEL 824 (2011: GEL 482; 2010: GEL 2,118). During 2012, 2011 and 2010 sensitivity analysis did not reveal significant potential effect on the Group Equity.

35 Financial and Other Risk Management (Continued)

Interest rate risk. Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of the financial assets and liabilities of the Bank. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities. The loans and deposits offered by the Bank are at fixed interest rates, while a portion of the Bank's borrowings is based on a floating rate of interest. The Bank's floating rate borrowings are, to a certain extent, hedged by the NBG paying a rate that is adjusted to a floating rate on the minimum reserves that the Bank holds with NBG. The Bank has also entered into interest rate swap agreements in order to mitigate interest rate risk, analyses of derivative financial instruments is given in Note 38. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. Management also believes that the Bank's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movement.

Interest rate risk is managed within the limit framework as established in accordance with the standards set by the Group. The Bank's interest rate gap is prepared and analysed by the Financial Risk Management Department. Scenario analysis is also conducted on a quarterly basis in order to assess interest rate earnings and the economic value sensitivity of the Bank, as well as to monitor compliance with the interest rate gap and other limits set by Asset and Liability Management Committee.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates (Currency swaps are not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or other financial risk management tables).

In thousands of GEL	**Less than 1 year**	**More than 1 year**	**Total**
31 December 2012			
Total financial assets	1,917,616	1,715,962	**3,633,578**
Total financial liabilities	2,256,548	1,051,705	**3,308,253**
Net interest sensitivity gap at 31 December 2012	**(338,932)**	**664,257**	**325,325**
31 December 2011			
Total financial assets	1,580,289	1,422,328	**3,002,617**
Total financial liabilities	1,896,863	884,328	**2,781,191**
Net interest sensitivity gap at 31 December 2011	**(316,574)**	**538,000**	**221,426**
31 December 2010			
Total financial assets	1,159,183	832,853	**1,992,036**
Total financial liabilities	1,474,335	382,018	**1,856,353**
Net interest sensitivity gap at 31 December 2010	**(315,152)**	**450,835**	**135,683**

At 31 December 2012, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 1,695 thousand (2011 GEL 1,583 thousand; 2010: GEL 1,576 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 1,695 thousand (2011: GEL 1,583 thousand; 2010: GEL 1,576 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

For the management of Interest Rate risk on a standalone basis, the Bank has introduced advanced model developed together with Ernst & Young LLC.

The bank calculates impact on both Net Interest Income and Economic Value sensitivity using parallel shifts as well as number of different scenarios. In addition, stress tests and what if scenarios are developed in accordance with Basel 2 requirements to ensure that the bank can withstand severe but probable stress scenarios. In order to manage Interest Rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective Interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and Supervisory Board Risk, Ethics and Compliance Committee.

35 Financial and Other Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. Short-term and long-term liquidity risk is managed by Financial Risk Management and Treasury Departments and monitored by the Asset/Liability Management Committee of the Group.

The principal objectives of the Group's liquidity policy are:

- Ensure appropriate levels of liquidity, at all times to meet claims arising from both on and off balance liability demands or asset commitments, both actual and contingent, at an economic price
- Monitor liquidity and funding on an ongoing basis to ensure that the approved business targets are met in a manner that does not compromise the risk profile of the Bank; Analyse all potential future in- and outflows and measure their effect on liquidity risk
- Recognize the structural mismatch that exists within the Bank's balance sheet and set monitoring ratios to manage funding in line with well balanced growth.

For the purpose of reliable liquidity risk management, the Bank has adopted maturity mismatch approach and developed Liquidity Mismatch Model which is in accordance with Basel Principle for Sound Liquidity Risk Management (Principle No 5). The framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over the certain time bands.
The model requires:

- To analyse cash flows under various heading and place them in predetermined time bands based on residual contractual maturity
- To apply behavioral adjustments, supported by documentary evidence, to cash flows of certain product types
- To calculate net mismatches by time period, according to Liquidity Coverage Ratio definition: Qualified Liquid Assets + Total Inflow/Total Outflow
- To assess the level of mismatch on net cumulative bases
- To control level of net mismatches via Prudential Limits

Critical Limits are set for the following time bands: 0-8 days, 9-30 days and 30-60 days, with the corresponding liquidity coverage ratio limits of 150%, 120% and 100% respectively.

The results of liquidity calculated using Liquidity Mismatch Model are additionally stress-tested using large shock scenario defined by NBG. Liquidity coverage internal limits in stress conditions are set at 100% for the first three time bands.

The Bank calculates Internal Liquidity Coverage Ratio and Stress Test on weekly basis.

As a complement to Liquidity Mismatch Model and Stress Testing, the Bank has adopted Liquidity Contingency Plan which is part of Group's Prudential Liquidity policy, to meet the overall funding and liquidity requirements. It is designed to enable the Bank to maintain its core business in deteriorating liquidity conditions and to emerge from a liquidity crisis as a creditworthy organisation.

The Bank calculates liquidity ratio on a daily basis in accordance with the requirement of NBG. The limit is defined by NBG for average liquidity ratio calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions with residual maturity up to 6 months and off-balance sheet liabilities up to 6 months; The ratio was 36.59% at 31 December 2012 (2011: 33.54%; 2010: 32.77%), well above the prudential limit set by NBG.

35 Financial and Other Risk Management (Continued)

According to daily cash flow forecasts, and the surplus in liquidity standing, Treasury Department places funds in short-term liquid assets, largely made up of short-term risk free securities, interbank deposits and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is managed according to balance sheet cash flow models, which are the part of assets/liabilities management process. The Asset/Liability Management Committee sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

For liquidity management purposes, the acceptable level for the liquidity ratio and concentration limits such as deposit to total obligations and large depositor concentration ratio as well as other ratios are set by the Asset/Liability Management Committee (ALCO) and controlled by the Financial Risks Management Department.

The table below summarizes the maturity analysis of the Group’s financial liabilities as at 31 December 2012 based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group’s deposit retention history.

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to other banks	33,254	3,220	42,461	-	**78,935**
Customer accounts – individuals	679,547	583,177	193,330	9,212	**1,465,266**
Customer accounts – other	753,368	142,647	173,640	19,854	**1,089,509**
Other financial liabilities	19,353	109	-	-	**19,462**
Other borrowed funds	189,406	95,624	267,048	53,391	**605,469**
Subordinated debt	862	10,998	92,189	78,303	**182,352**
Gross settled forwards	63,094	8,075	-	-	**71,169**
Financial and performance guarantees	82,913	154,402	88,953	45,865	**372,133**
Other credit related commitments	179,589	-	-	-	**179,589**
Total potential future payments for financial obligations	**2,001,386**	**998,252**	**857,621**	**206,625**	**4,063,884**

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

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to other banks	58,694	57,739	-	-	**116,433**
Customer accounts – individuals	528,762	457,578	166,794	6,737	**1,159,871**
Customer accounts – other	677,435	76,376	167,640	5,675	**927,126**
Other financial liabilities	6,582	1,382	3,414	358	**11,736**
Other borrowed funds	138,899	168,262	225,539	64,497	**597,197**
Subordinated debt	19,318	21,870	109,269	59,874	**210,331**
Gross settled forwards	61,964	-	-	-	**61,964**
Financial and performance guarantees	99,894	171,318	81,086	48,040	**400,338**
Other credit related commitments	199,054	-	-	-	**199,054**
Total potential future payments for financial obligations	**1,790,602**	**954,525**	**753,742**	**185,181**	**3,684,050**

35 Financial and Other Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2010 is as follows:

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to other banks	47,766	-	-	-	**47,766**
Customer accounts – individuals	497,121	300,893	64,096	7,182	**869,292**
Customer accounts – other	430,888	69,155	12,089	8,867	**520,999**
Other financial liabilities	4,013	-	-	-	**4,013**
Other borrowed funds	86,654	44,914	93,584	64,185	**289,337**
Subordinated debt	2,065	10,165	87,080	67,583	**166,893**
Gross settled forwards	356	-	-	-	**356**
Financial and performance guarantees	19,259	57,611	28,662	26,692	**132,224**
Other credit related commitments	99,528	-	-	-	**99,528**
Total potential future payments for financial obligations	**1,187,650**	**482,738**	**285,511**	**174,509**	**2,130,408**

The undiscounted financial liability analysis gap does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term Deposits included in customer accounts are classified based on contractual maturities, although, in accordance with the Georgian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon demand of a depositor. In line with historical experience, however, Management expects that many customers will not require repayment on the earliest possible date and, accordingly, the table does not reflect Management's expectations as to actual cash flows indicated by the Bank's deposit retention history.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

35 Financial and Other Risk Management (Continued)

The expected gap may be summarised as follows at 31 December 2012:

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	398,587	-	-	**398,587**
Due from other banks	317,439	28,164	-	**345,603**
Loans and advances to customers	442,312	560,935	1,366,953	**2,370,200**
Investment securities available for sale	407,733	-	-	**407,733**
Investment securities held to maturity	-	-	-	**-**
Finance lease receivables	4,799	9,127	12,451	**26,377**
Other financial assets	8,973	2,989	13,339	**25,301**
Total financial assets	**1,579,843**	**601,215**	**1,392,743**	**3,573,801**
Liabilities				
Due to other banks	33,145	3,102	39,957	**76,204**
Customer accounts	310,867	87,043	2,089,034	**2,486,944**
Other borrowed funds	186,642	79,905	284,372	**550,919**
Other financial liabilities	19,353	109	-	**19,462**
Subordinated debt	793	1,434	112,853	**115,080**
Total financial liabilities	**550,800**	**171,593**	**2,526,216**	**3,248,609**
Credit related commitments and performance guarantees				
Financial and performance guarantees	3,174	**-**	**-**	**3,174**
Other credit related commitments	33,601	**-**	**-**	**33,601**
Credit related commitments and performance guarantees	**36,775**	**-**	**-**	**36,775**
Net liquidity gap at 31 December 2012	**992,268**	**429,622**	**(1,133,473)**	**288,417**
Cumulative gap at 31 December 2012	**992,268**	**1,421,890**	**288,417**	

Management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.

35 Financial and Other Risk Management (Continued)

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

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	374,153	-	-	**374,153**
Due from other banks	250,836	40,173	-	**291,009**
Loans and advances to customers	351,624	468,693	1,188,428	**2,008,745**
Investment securities available for sale	266,436	-	-	**266,436**
Investment securities held to maturity	8,833	20,123	-	**28,956**
Finance lease receivables	3,315	6,534	12,130	**21,979**
Other financial assets	5,559	2,575	3,205	**11,339**
Total financial assets	**1,260,756**	**538,098**	**1,203,763**	**3,002,617**
Liabilities				
Due to other banks	54,243	56,135	-	**110,378**
Customer accounts	253,706	69,822	1,675,728	**1,999,256**
Other borrowed funds	132,057	150,970	234,745	**517,772**
Other financial liabilities	6,153	1,380	3,772	**11,305**
Subordinated debt	18,122	9,664	114,694	**142,480**
Total financial liabilities	**464,281**	**287,971**	**2,028,939**	**2,781,191**
Credit related commitments and performance guarantees				
Financial and performance guarantees	7,134	-	-	7,134
Other credit related commitments	27,351	-	-	27,351
Credit related commitments and performance guarantees	**34,485**	**-**	**-**	**34,485**
Net liquidity gap at 31 December 2011	**761,990**	**250,127**	**(825,176)**	**186,941**
Cumulative gap at 31 December 2011	**761,990**	**1,012,117**	**186,941**	

35 Financial and Other Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2010:

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	275,425	-	-	**275,425**
Due from other banks	58,576	16,160	-	**74,736**
Loans and advances to customers	225,793	356,878	798,284	**1,380,955**
Investment securities available for sale	216,323	-	-	**216,323**
Investment securities held to maturity	-	-	28,986	**28,986**
Finance lease receivables	1,629	3,527	4,525	**9,681**
Other financial assets	5,930	-	-	**5,930**
Total financial assets	**783,676**	**376,565**	**831,795**	**1,992,036**
Liabilities				
Due to other banks	47,762	-	-	**47,762**
Customer accounts	170,669	47,787	1,146,896	**1,365,352**
Other borrowed funds	86,036	41,564	153,306	**280,906**
Other financial liabilities	3,932	-	-	**3,932**
Subordinated debt	2,048	7,103	149,250	**158,401**
Total financial liabilities	**310,447**	**96,454**	**1,449,452**	**1,856,353**
Credit related commitments and performance guarantees				
Financial and performance guarantees	5,781	-	-	5,781
Other credit related commitments	5,227	-	-	5,227
Credit related commitments and performance guarantees	**11,008**	**-**	**-**	**11,008**
Net liquidity gap at 31 December 2010	**462,221**	**280,111**	**(617,657)**	**124,675**
Cumulative gap at 31 December 2010	**462,221**	**742,332**	**124,675**	

35 Financial and Other Risk Management (Continued)

In order to assess the possible outflow of the bank's customer accounts management applied value at risk analysis. The statistical data was used on the basis of a holding period of one month for a look-back period of three years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: (0-3 months) and (0-12 months), based on which the maximum percentage of deposits' outflow was calculated.

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

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Moreover, the Group's liquidity risk management includes estimation of actual estimated maturities for its current deposits. The estimation is based on statistical methods applied to historic information on fluctuations of customer account balances.

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

To promote more medium and long-term funding of the assets and activities TBC Bank has adopted the Net Stable Funding Ratio (NSFR) based on the guidelines given in the document 'Basel III International Framework for liquidity risk measurement, standards and monitoring - 2010, December'. This standard establishes a minimum acceptable amount of stable funding based on the liquidity characteristics of the Bank's assets and activities over a one year horizon.

In particular, the NSFR standard is structured to be effective tool for liquidity risk management purposes by ensuring that long term assets are funded with at least a minimum amount of stable liabilities in relation to their liquidity risk profiles. The NSFR aims to limit over-reliance on short-term wholesale funding during times of buoyant market liquidity and encourage better assessment of liquidity risk across all on- and off-balance sheet items.

The objective of the standard is to ensure stable funding on an ongoing, viable entity basis, over one year in an extended firm-specific stress scenario where a bank encounters, and investors and customers become aware of:

- A significant decline in profitability or solvency arising from heightened credit risk, market risk or operational risk and/or other risk exposures;
- A potential downgrade in a debt, counterparty credit or deposit rating by any nationally recognized credit rating organization; and/or
- A material event that calls into question the reputation or credit quality of the institution.

The NSFR is defined as the amount of available amount of stable funding (ASF) to the amount of required stable funding (RSF):

$$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} > 100\%$$

The available amount of stable funding is calculated as the sum of the value capital and liabilities multiplied by a specific required stable funding (ASF) factor assigned to each particular liability type.

The required amount of stable funding is calculated as the sum of the value of the assets held and funded by the Bank, multiplied by a specific required stable funding (RSF) factor assigned to each particular asset type, added to the amount of off-balance sheet activity (or potential liquidity exposure) multiplied by its associated RSF factor

Net Stable Funding ratio is calculated based on NBG accounting standards for TBC Bank standalone. The remaining maturity of the instruments is defined based on IFRS requirements.

35 Financial and Other Risk Management (Continued)

Calculation of the NSFR as at 31 December 2012 is summarized in the table below. The Bank introduced the ratio in 2012 therefore there is no comparative data:

NSFR at 31 December 2012			**116.77%**
In thousands of GEL	**Factor**	**Amount**	**Weighted amount**
Capital: Tier 1 & Tier 2 Capital Instruments			**636,562**
Tier 1	100%	504,843	504,843
Tier 2	100%	172,139	172,139
Deductions from Capital	100%	(40,420)	(40,420)
Long Term Funding (year > 1)			**180,056**
Long Term Borrowings (>1 year)	100%	165,477	165,477
Subordinated debt(>1 year) and not included in Tier 2	100%	14,579	14,579
Other Funding			**1,775,581**
Total Corporate deposits	50%	780,570	390,285
Total SME deposits	80%	268,666	214,933
Total Retail deposits	80%	1,363,369	1,090,695
Short term borrowings with remaining maturity (<=1year) excluding NBG Loan	50%	159,335	79,668
Available amount of stable funding			**2,592,198**
Long term Assets with remaining maturity >1 year			**1,763,027**
Certificate of Deposits & Treasury bill's	5%	-	-
Reserves in NGB (Stable part)	100%	246,449	246,449
Corporate Loans more than 1 year	100%	592,926	592,926
SME Loans more than 1 year	100%	176,201	176,201
Retail Loans more than 1 year	100%	524,872	524,872
Fixed and Intangible Assets	100%	183,726	183,726
Repossessed Assets	100%	-	-
Equity Investments	100%	28,094	28,094
Other assets	100%	10,760	10,760
Short term Assets with remaining maturity <=1 year			**429,455**
Corporate Loans less than 1 year	50%	456,427	228,213
SME Loans less than 1 year	50%	81,377	40,689
Retail Loans less than 1 year	50%	321,106	160,553
Undrawn amount of committed credit and liquidity facilities			**27,502**
Unused credit lines and undisbursed amounts from loans	5%	177,313	8,866
Guarantees	5%	372,717	18,636
Required amount of stable funding			**2,219,983**

Insurance risk - amount, timing and uncertainty of profit and loss and future cash flows. The insurance risk arises in connection with the performance guarantees issued by the Group. The risk under performance guarantee contracts is the possibility that the insured event (i.e.: the failure to perform the contractual obligation by another party) occurs. The key risks the Bank faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Bank uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Bank to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Bank manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in

35 Financial and Other Risk Management (Continued)

the future to reflect any change in claim payments experience. The Bank has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests. Most of the performance guarantee contracts are collateralised, e.g. by counter-guarantees issued by other banking institutions.

36 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by NBG (ii) to safeguard the Group's ability to continue as a going concern and (iii) to comply with financial covenants stipulated by borrowing agreements. Compliance with capital adequacy ratios set by NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's CFO and Deputy CFO.

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

In thousands of GEL	2012	2011	2010
Share capital	251,785	224,659	216,836
Retained earnings and other disclosed reserves	253,057	222,985	108,940
General loan loss provisions (up to 1.25 % of risk – weighted assets)	44,224	42,172	23,776
Less intangible assets	(14,048)	(6,380)	(3,375)
Less Investments into subsidiary companies and capital of other banks	(68,615)	(70,764)	(46,913)
Subordinated debt (included in regulatory capital)	99,733	79,239	104,099
Total regulatory capital	**566,136**	**491,911**	**403,363**

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of GEL	2012	2011	2010
Tier 1 capital			
Share capital	247,644	218,479	216,836
Retained earnings and disclosed reserves	303,023	208,006	123,423
Less: Goodwill	(2,726)	(2,726)	(1,262)
Non-controlling interest	11,419	9,134	5,200
Total tier 1 capital	**559,360**	**432,893**	**344,197**
Tier 2 capital			
Revaluation reserves	41,939	33,162	31,813
General reserve	36,148	31,841	21,872
Subordinated debt (included in tier 2 capital)	99,733	79,239	104,099
Total tier 2 capital	**177,820**	**144,242**	**157,784**
Total capital	**737,180**	**577,135**	**501,981**

Following Basel I guidelines general reserve is defined by the management as the minimum among the following:

a) IFRS provisions created on loans without impairment trigger event

b) 2% of loans without impairment trigger event

c) 1.25% of total RWA (Risk Weighted Assets)

The Bank has complied with all externally imposed capital requirements throughout 2012, 2011 and 2010.

37 Contingencies and Commitments

Legal proceedings. The Bank is a defendant in a legal claim, however on the basis of its own estimates and both internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the period of review. To respond to the risks, the Bank has engaged external tax specialists who are performing periodic reviews of Bank's taxation policies and tax filings, consequently the Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, and customs positions will be sustained. Accordingly, as at 31 December 2012, 2011 and 2010 no provision for potential tax liabilities has been recorded.

Operating lease commitments. Where the Group is the lessee, the future lease payments under non-cancellable operating leases, if cancelled, would be as follows:

In thousands of GEL	**2012**	**2011**	**2010**
Not later than 1 year	58	395	-
Later than 1 year and not later than 5 years	271	95	667
Later than 5 years	-	167	492
Total operating lease commitments	**329**	**657**	**1,159**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 31 December 2012, 2011 and 2010.

Credit related commitments and performance guarantees. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e.: the failure to perform the contractual obligation by another party) occurs. The key risks the Bank faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations.

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

37 Contingencies and Commitments (Continued)

Outstanding credit related commitments and performance guarantees are as follows:

In thousands of GEL	Note	2012	2011	2010
Financial and performance guarantees issued		273,124	322,263	145,877
Undrawn credit lines		179,589	199,054	99,329
Letters of credit		88,698	66,091	18,377
Total credit related commitments and performance guarantees (before provision)		**541,411**	**587,408**	**263,583**
Less: Provision for credit related commitments and performance guarantees		(3,174)	(7,134)	(5,781)
Total credit related commitments and performance guarantees		**538,237**	**580,274**	**257,802**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Binding undrawn credit lines as at 31 December 2012 composed GEL 124,448 thousand (2011: GEL 101,301 thousand; 2011:2010: GEL 19,361 thousand).

Fair value of credit related commitments and performance guarantees was GEL 3,174 thousand at 31 December 2012 (2011: GEL 7,134 thousand; 2010: GEL 5,781 thousand). They are denominated in currencies as follows:

In thousands of GEL	2012	2011	2010
Georgian Lari	194,178	164,997	62,907
US Dollars	279,563	318,830	158,436
Euro	36,431	42,509	28,522
Other	31,239	61,072	13,718
Total	**541,411**	**587,408**	**263,583**

Capital expenditure commitments. At 31 December 2012, the Group has no contractual capital expenditure commitments in respect of premises and equipment (2011: GEL 1,290 thousand; 2010: nil).

38 Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

In thousands of GEL	2012	2011	2010
Fair value of foreign exchange forwards and gross settled currency swaps	446	165	(300)
Fair value of Interest rate swaps	(7,139)	(5,152)	-
Total	**(6,693)**	**(4,987)**	**(300)**

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

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

	2012		**2011**		**2010**	
In thousands of GEL	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards and gross settled currency swaps: fair values, at the balance sheet date, of						
- USD payable on settlement (-)	-	(36,428)	-	(53,968)	-	(664)
- USD receivable on settlement (+)	26,507	-	-	-	-	-
- GEL payable on settlement (-)	-	(26,508)	-	-	-	-
- GEL receivable on settlement (+)	41,676	-	8,407	-	364	-
- EUR payable on settlement (-)	-	(8,075)	-	-	-	-
- EUR receivable on settlement (+)	3,274	-	13,617	-	-	-
- Other payable on settlement (-)	-	-	-	-	-	-
- Other receivable on settlement (+)	-	-	32,109	-	-	-
Fair value of foreign exchange forwards and gross settled currency swaps	**71,457**	**(71,011)**	**54,133**	**(53,968)**	**364**	**(664)**
Net fair value of foreign exchange forwards and gross settled currency swaps	**446**		**165**	-	**-**	**(300)**

Interest rate swaps. In March 2010 TBC Bank entered into interest rate swap agreement, to hedge floating interest rate on its subordinated debt. The hedge covers payment of floating rate interest payments with the notional principal of USD 44,000. The swap expires in November 2018. At the reporting date fair value of interest rate swaps was estimated to be minus USD 7,139 thousand (2011: minus USD 5,152 thousand; 2010: nil).

Information on related party balances is disclosed in Note 41.

39 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

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

	2012		2011		2010	
In thousands of GEL	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value
FINANCIAL ASSETS						
Cash and cash equivalents	398,587	398,587	374,153	374,153	275,425	275,425
Due from other banks	345,603	345,603	291,009	291,009	74,736	74,736
Loans and advances to customers:						
- Corporate loans	1,046,831	1,029,112	919,868	889,743	588,910	695,119
- Consumer loans	455,020	451,548	368,090	383,232	243,267	259,783
- Mortgage loans	375,406	372,230	356,354	362,347	230,286	244,140
- Small and micro loans	293,294	289,397	217,611	230,557	189,569	142,383
- Others	85,449	86,343	58,386	58,456	39,530	39,530
- Micro	134,010	141,570	80,114	84,410	-	-
Investment securities held to maturity	-	-	29,677	28,956	29,224	28,986
Investments in leases	26,377	26,377	21,979	21,979	9,681	9,681
Other financial assets	25,301	25,301	11,339	11,339	5,930	5,930
TOTAL FINANCIAL ASSETS CARRIED *AT AMORTISED COST*	**3,185,878**	**3,166,068**	**2,728,580**	**2,736,181**	**1,686,558**	**1,775,713**
FINANCIAL LIABILITIES						
Due to other banks	76,204	76,204	110,378	110,378	47,762	47,762
Customer accounts	2,486,944	2,486,944	1,999,256	1,999,256	1,365,352	1,365,352
Other financial liabilities	19,462	19,462	11,305	11,305	3,932	3,932
Other borrowed funds	550,917	550,917	517,772	517,772	280,906	280,906
Subordinated debt	115,082	115,082	142,480	142,480	158,401	158,401
TOTAL FINANCIAL LIABILITIES CARRIED *AT AMORTISED COST*	**3,253,580**	**3,253,580**	**2,781,191**	**2,781,191**	**1,856,353**	**1,856,353**

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

Financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products do not entail a significant amount of judgment;
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active;
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

39 Fair Value of Financial Instruments (Continued)

The Bank's valuation approach and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value is as follows:

In thousands of GEL	2012		2011		2010	
	Quoted price in an active market (Level 1)	**Valuation technique with inputs observa-ble in markets (Level 2)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observa-ble in markets (Level 2)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observa-ble in markets (Level 2)**
FINANCIAL ASSETS						
Investment securities available for sale						
- Certificates of Deposits of National Bank of Georgia	187,551	-	168,537	-	126,148	-
- Ministry of Finance Treasury Bills	19,210	-	61,014	-	86,841	-
- Government notes	196,004	-	32,942	-	-	-
- Corporate shares (Visa Inc)	3,156	-	2,131	-	1,568	-
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**405,921**	**-**	**264,624**	**-**	**214,557**	**-**
- Derivative financial liabilities	-	6,828	-	4,987	-	300
TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**-**	**6,828**	**-**	**4,987**	**-**	**300**

(c) The methods and assumptions applied in determining fair values.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Group used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in significantly different profit, income, total assets or total liabilities.

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

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

	2012	2011	2010
Due from other banks	2%	2%	2%
Loans and advances to customers			
Corporate loans	13%	14%	21%
Consumer loans	21%	23%	26%
Mortgage loans	13%	14%	21%
Loans to small and medium enterprises	13%	15%	20%
Micro loans	29%	33%	-
Investment securities held to maturity		13%	14%
Due to other banks	4%	3%	5%
Customer accounts			
Current/settlement accounts of legal entities	2%	3%	2%
Term deposits of legal entities	9%	11%	11%
Current/demand accounts of individuals	2%	3%	3%
Term deposits individuals	7%	9%	11%
Other borrowed funds	8%	5%	6%
Subordinated debt	10%	10%	10%

40 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2012:

In thousands of GEL	**Loans and receivables**	**Available for sale assets**	**Held to maturity**	**Total**
ASSETS				
Cash and cash equivalents	-	-	-	**398,587**
Due from other banks	345,603	-	-	**345,603**
Loans and advances to customers	2,370,200	-	-	**2,370,200**
Investment securities available for sale	-	407,733	-	**407,733**
Investments in leases	26,377	-	-	**26,377**
Other financial assets:				
- Other financial receivables	25,301	-	-	**25,301**
TOTAL FINANCIAL ASSETS	**2,767,481**	**407,733**	**-**	**3,573,801**
NON-FINANCIAL ASSETS				**325,893**
TOTAL ASSETS				**3,899,694**

40 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2011:

In thousands of GEL	Loans and receivables	Available for sale assets	Held to maturity	Total
ASSETS				
Cash and cash equivalents	-	-	-	**374,153**
Due from other banks	291,009	-	-	**291,009**
Loans and advances to customers	2,008,745	-	-	**2,008,745**
Investment securities held to maturity	-	-	28,956	**28,956**
Investment securities available for sale	-	266,436	-	**266,436**
Investments in leases	21,979	-	-	**21,979**
Other financial assets:				
- Other financial receivables	11,339	-	-	**11,339**
TOTAL FINANCIAL ASSETS	**2,333,072**	**266,436**	**28,956**	**3,002,617**
NON-FINANCIAL ASSETS	-	-	-	**297,404**
TOTAL ASSETS	-	-	-	**3,300,021**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2010:

In thousands of GEL	Loans and receivables	Available for sale assets	Held to maturity	Total
ASSETS				
Cash and cash equivalents	-	-	-	**275,425**
Due from other banks	74,736	-	-	**74,736**
Loans and advances to customers	1,380,955	-	-	**1,380,955**
Investment securities available for sale	-	216,323	-	**216,323**
Investment securities held to maturity	-	-	28,986	**28,986**
Investments in leases	9,681	-	-	**9,681**
Other financial assets:				
- Other financial receivables	5,930	-	-	**5,930**
TOTAL FINANCIAL ASSETS	**1,471,302**	**216,323**	**28,986**	**1,992,036**
NON-FINANCIAL ASSETS	-	-	-	**275,745**
TOTAL ASSETS	-	-	-	**2,267,781**

As at 31 December 2012, 2011 and 2010, all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

41 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Included in key management personnel are members of the Board of Directors and close members of the family. Other related parties include entities in which shareholders have significant influence.

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

In thousands of GEL	**Note**	**Significant shareholders**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)		13,137	1,571	15,358
Impairment provisions for loans and advances to customers		250	19	318
Derivative financial liability	38	7,139	-	-
Other borrowed funds		161,767	-	-
Customer accounts (contractual interest rate: 0 - 13 %)		3,839	4,530	22,192
Subordinated debt (contractual interest rate: 5 - 11.3 %)		61,122	-	-

The income and expense items with related parties except from key management compensation for the year 2012 were as follows:

In thousands of GEL	**Note**	**Significant shareholders**	**Key management personnel**	**Other related parties**
Interest income		1,757	261	1,644
Interest expense		385	386	565
Provision for loan impairment		-	-	26
Foreign exchange translation gains less losses		8	4	392
Fee and commission income		11	5	376
Administrative and other operating expenses		17	133	-
Net loss on derivative financial instruments	38	3,804	-	-

At 31 December 2012, other rights and obligations with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Guarantees issued by the Group at the year end	-	-	5,401

Aggregate amounts of loans advanced to and repaid by related parties during 2012 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Amounts advanced to related parties during the year	1,816	1,018	15,253
Amounts repaid by related parties during the year	(5,041)	(1,994)	(9,398)

41 Related Party Transactions (Continued)

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

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)		14,711	3,129	6,933
Impairment provisions for loans and advances to customers		(213)	(35)	(262)
Derivative financial liability	38	5,152	-	-
Other borrowed funds		106,941	-	-
Customer accounts (contractual interest rate: 0 - 13 %)		3,899	5,207	13,204
Subordinated debt (contractual interest rate: 5 - 11.3 %)		62,325	-	-

The income and expense items with related parties except from key management compensation for the year 2011 were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Interest income		3,328	332	276
Interest expense		401	463	428
Provision for loan impairment		-	-	-
Foreign exchange translation gains less losses		13	5	611
Fee and commission income		8	10	126
Administrative and other operating expenses		55	317	-
Net loss on derivative financial instruments	38	4,987	-	-

At 31 December 2011, other rights and obligations with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Guarantees issued by the Group at the year end	-	-	7,049

Aggregate amounts of loans advanced to and repaid by related parties during 2011 were:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Amounts advanced to related parties during the year	1,435	1,448	12,467
Amounts repaid by related parties during the year	(1,422)	(645)	(9,580)

41 Related Party Transactions (Continued)

At 31 December 2010, the outstanding balances with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)	15,528	1,135	4,303
Impairment provisions for loans and advances to customers	(1,114)	(83)	(554)
Other borrowed funds	96,176	-	-
Customer accounts (contractual interest rate: 0 - 13 %)	4,853	3,990	226
Subordinated debt (contractual interest rate: 5 - 11.3 %)	73,101	-	-

The income and expense items with related parties except from key management compensation for the year 2010 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Interest income	548	127	201
Interest expense	468	247	9
Provision for loan impairment	2,397	44	40
Foreign exchange translation gains less losses	49	4	138
Fee and commission income	3	-	315
Administrative and other operating expenses	27	105	-
Net loss on derivative financial instruments	300	-	-

At 31 December 2010, other rights and obligations with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Guarantees issued by the Group at the year end	-	-	2,257

Aggregate amounts of loans advanced to and repaid by related parties during 2010 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Amounts advanced to related parties during the year	13,857	956	11,893
Amounts repaid by related parties during the year	(12,134)	(1,315)	(7,720)

Compensation of the key management personnel and supervisory board members is presented below:

	2012		**2011**		**2010**	
In thousands of GEL	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Salaries and cash settled bonuses	7,932	4,415	9,845	4,887	5,561	4,935
Equity-settled share-based compensation	2,700	-	6,180	-	-	-
Total	**10,632**	**4,415**	**16,025**	**4,887**	**5,561**	**4,935**

42 Events After the End of the Reporting Period

After the end of reporting period, the Group received long-term loan from international financial institution amounting to USD 50,000 thousand.