Bank of Georgia and Subsidiaries
Consolidated Financial Statements

31 December 2011
Together with Independent Auditors' Report

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Bank of Georgia –

We have audited the accompanying consolidated financial statements of JSC Bank of Georgia and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JSC Bank of Georgia and its subsidiaries as at 31 December 2011 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG LLC

23 March 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

(Thousands of Georgian Lari)

	Notes	2011	2010	2009
Assets				
Cash and cash equivalents	7	628,731	611,584	357,889
Amounts due from credit institutions	8	289,530	116,469	64,620
Investment securities:				
– available-for-sale	11	419,576	294,940	19,590
– held-to-maturity	11	–	21	249,196
Loans to customers	9	2,553,442	2,351,697	1,661,331
Finance lease receivables	10	62,919	14,419	16,896
Investments in associates	12	3,014	5,632	10,323
Investment properties	13	101,686	113,496	79,509
Property and equipment	14	348,110	285,852	278,729
Goodwill	15	46,195	69,212	65,777
Other intangible assets	15	21,222	22,390	19,665
Current income tax assets	16	8,487	2,247	7,997
Deferred income tax assets	16	14,852	18,178	15,487
Prepayments		29,929	23,365	18,140
Other assets	18	137,568	75,420	48,280
Total assets		**4,665,261**	**4,004,922**	**2,913,429**
Liabilities				
Amounts due to customers	20	2,735,222	2,026,308	1,273,130
Amounts due to credit institutions	19	921,172	1,138,927	928,615
Current income tax liabilities	16	1,174	4,251	574
Deferred income tax liabilities	16	36,242	30,901	24,661
Provisions	17, 22	386	4,407	2,126
Other liabilities	18	158,462	106,787	85,906
Total liabilities		**3,852,658**	**3,311,581**	**2,315,012**
Equity	21			
Share capital		32,878	31,345	31,306
Additional paid-in capital		473,732	477,285	478,779
Treasury shares		(3,146)	(1,510)	(1,677)
Other reserves		14,478	26,816	24,387
Retained earnings		254,588	130,314	46,163
Total equity attributable to shareholders of the Bank		**772,530**	**664,250**	**578,958**
Non-controlling interests		40,073	29,091	19,459
Total equity		**812,603**	**693,341**	**598,417**
Total liabilities and equity		**4,665,261**	**4,004,922**	**2,913,429**

Signed and authorised for release on behalf of the Management Board of the Bank:

Irakli Gilauri — Chief Executive Officer

David Vakhtangishvili — Chief Financial Officer

23 March 2012

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Notes	2011	2010	2009
Interest income				
Loans to customers		438,989	389,402	361,176
Investment securities – available-for-sale		37,701	7,287	1,276
Amounts due from credit institutions		18,103	9,795	5,037
Finance lease receivables		6,565	4,159	5,844
Investment securities – held-to-maturity		–	12,498	5,725
		501,358	**423,141**	**379,058**
Interest expense				
Amounts due to customers		(167,294)	(114,968)	(96,935)
Amounts due to credit institutions		(99,763)	(91,829)	(91,582)
		(267,057)	**(206,797)**	**(188,517)**
Net interest income before net gains (losses) from derivative financial instruments		**234,301**	**216,344**	**190,541**
Net gains (losses) from derivative financial instruments		4,984	(7,826)	(6,266)
Net interest income		**239,285**	**208,518**	**184,275**
Fee and commission income		93,541	74,265	64,599
Fee and commission expense		(18,204)	(10,845)	(9,574)
Net fee and commission income	23	**75,337**	**63,420**	**55,025**
Net insurance premiums earned		46,396	44,561	45,477
Net insurance claims incurred		(28,658)	(27,898)	(30,102)
Net insurance revenue	24	**17,738**	**16,663**	**15,375**
Net gains from trading securities and investment securities available-for-sale		1,382	2,006	2,937
Net gains (losses) from revaluation of investment properties	13	1,984	350	(4,087)
Net gains from foreign currencies:				
– dealing		45,694	33,651	25,945
– translation differences	25	30,747	98	3,138
Other operating income		29,052	21,927	12,283
Other operating non-interest income		**108,859**	**58,032**	**40,216**
Revenue		**441,219**	**346,633**	**294,891**
Salaries and other employee benefits	26	(119,111)	(104,551)	(100,505)
General and administrative expenses	26	(61,942)	(61,000)	(57,339)
Depreciation and amortization	14,15	(27,254)	(27,963)	(25,428)
Other operating expenses		(9,324)	(6,253)	(11,740)
Other operating non-interest expenses		**(217,631)**	**(199,767)**	**(195,012)**
Operating income before cost of credit risk		**223,588**	**146,866**	**99,879**

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Notes	2011	2010	2009
Operating income before cost of credit risk		**223,588**	**146,866**	**99,879**
Impairment charge on loans to customers	9	(23,216)	(49,886)	(118,882)
(Impairment charge) reversal of impairment on finance lease receivables	10	(317)	5,775	(6,859)
Impairment reversal (charge) on other assets and provisions	17	1,337	(3,587)	(6,431)
Cost of credit risk		**(22,196)**	**(47,698)**	**(132,172)**
Net operating income (loss)		**201,392**	**99,168**	**(32,293)**
Impairment charge on goodwill	15	(23,394)	–	(73,072)
Impairment charge on property and equipment	14	–	(435)	(3,200)
Total impairment of goodwill and property and equipment		**(23,394)**	**(435)**	**(76,272)**
Share of (loss) profit of associates	12	(487)	255	(2,649)
Gain from hyperinflation	27	5,169	–	–
Other non-operating income	28	2,903	–	5,308
Other non-operating expenses	28	(13,529)	(545)	–
Non-operating (expense) income		**(5,944)**	**(290)**	**2,659**
Profit (loss) before income tax (expense) benefit from continuing operations		**172,054**	**98,443**	**(105,906)**
Income tax (expense) benefit	16	(21,125)	(15,776)	6,998
Profit (loss) for the year from continuing operations		**150,929**	**82,667**	**(98,908)**
Net loss from discontinued operations	29	(15,219)	–	–
Profit (loss) for the year		**135,710**	**82,667**	**(98,908)**
Attributable to:				
– shareholders of the Bank		132,531	83,640	(91,370)
– non-controlling interests		3,179	(973)	(7,538)
		135,710	**82,667**	**(98,908)**
Earnings (loss) per share, total:	21			
– basic earnings (loss) per share		4.4375	2.7846	(2.9963)
– diluted earnings (loss) per share		4.1957	2.7388	(2.9963)
Earnings (loss) per share from continuing operations:	21			
– basic earnings (loss) per share from continuing operations		4.9470	2.7846	(2.9963)
– diluted earnings (loss) per share from continuing operations		4.6499	2.7388	(2.9963)

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Notes	2011	2010	2009
Profit (loss) for the year from continuing operations		**150,929**	**82,667**	**(98,908)**
Net loss from discontinued operations	29	(15,219)	–	–
Profit (loss) for the year		**135,710**	**82,667**	**(98,908)**
Other comprehensive (loss) income from continuing operations				
– Revaluation of property & equipment	14, 29	1,285	(2,859)	(1,842)
– Revaluation of available-for-sale securities		3,511	6,077	7,533
– Realized gain on available-for-sale securities reclassified to the consolidated income statement		(1,721)	(789)	(174)
– (Loss) gain from currency translation differences	21	(52,493)	5,116	(12,145)
Income tax relating to components of other comprehensive income	16	5,581	206	(704)
Other comprehensive (loss) income for the year from continuing operations, net of tax		**(43,837)**	**7,751**	**(7,332)**
Other comprehensive gain from discontinued operations	29	24,254	–	–
Other comprehensive (loss) income for the year, net of tax		**(19,583)**	**7,751**	**(7,332)**
Total comprehensive income (loss) for the year from continuing operations		107,092	90,418	(106,240)
Total comprehensive income for the year from discontinued operations	29	9,035	–	–
Total comprehensive income (loss) for the year		**116,127**	**90,418**	**(106,240)**
Attributable to:				
– shareholders of the Bank		121,105	89,830	(98,702)
– non-controlling interests		(4,978)	588	(7,538)
		116,127	**90,418**	**(106,240)**

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Attributable to shareholders of the Bank							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2008	**31,253**	**468,732**	**(2,018)**	**26,201**	**141,491**	**665,659**	**53,190**	**718,849**
Total comprehensive income (loss)	–	–	–	(6,061)	(92,641)	(98,702)	(7,538)	(106,240)
Depreciation of revaluation reserve, net of tax	–	–	–	(3,377)	3,377	–	–	–
Increase in share capital arising from share-based payments (Note 21)	53	2,523	153	–	–	2,729	–	2,729
Share offering costs adjustment	–	306	–	–	–	306	–	306
Equity component of compound financial instrument	–	9,769	–	–	–	9,769	–	9,769
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	–	(6,064)	(6,064)	(1,479)	(7,543)
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	7,624	–	7,624	(24,730)	(17,106)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	16	16
Sale of treasury shares	–	1,154	642	–	–	1,796	–	1,796
Purchase of treasury shares	–	(3,705)	(454)	–	–	(4,159)	–	(4,159)
31 December 2009	**31,306**	**478,779**	**(1,677)**	**24,387**	**46,163**	**578,958**	**19,459**	**598,417**
Total comprehensive income	–	–	–	7,942	81,888	89,830	588	90,418
Depreciation of revaluation reserve, net of tax	–	–	–	(2,263)	2,263	–	–	–
Increase in share capital arising from share-based payments (Note 21)	39	8,497	610	–	–	9,146	–	9,146
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	–	–	–	11,973	11,973
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	(3,250)	–	(3,250)	(6,854)	(10,104)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	3,925	3,925
Sale of treasury shares	–	7,104	448	–	–	7,552	–	7,552
Purchase of treasury shares	–	(17,095)	(891)	–	–	(17,986)	–	(17,986)
31 December 2010	**31,345**	**477,285**	**(1,510)**	**26,816**	**130,314**	**664,250**	**29,091**	**693,341**
Total comprehensive (loss) income	–	–	–	(9,208)	130,253	121,045	(4,918)	116,127
Depreciation of revaluation reserve, net of tax	–	–	–	(3,190)	3,190	–	–	–
Increase in share capital arising from share-based payments (Note 21)	33	2,716	148	–	–	2,897	–	2,897
Increase in share capital from issuance of GDRs (Note 21)	1,500	–	(1,500)	–	–	–	–	–
Dividends to shareholders of the bank (Note 21)	–	–	–	–	(9,169)	(9,169)	–	(9,169)
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	60	–	60	2,453	2,513
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	13,447	13,447
Sale of treasury shares	–	26,777	1,268	–	–	28,045	–	28,045
Purchase of treasury shares	–	(33,046)	(1,552)	–	–	(34,598)	–	(34,598)
31 December 2011	**32,878**	**473,732**	**(3,146)**	**14,478**	**254,588**	**772,530**	**40,073**	**812,603**

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Notes	2011	2010	2009
Cash flows from operating activities				
Interest received		494,782	412,407	377,043
Interest paid		(244,478)	(194,622)	(205,054)
Fees and commissions received		93,541	74,265	64,599
Fees and commissions paid		(18,204)	(10,845)	(9,574)
Net realized (losses) gains from trading securities		(236)	2,267	587
Net realized gains from investments securities		1,721	789	174
Net realized gains from foreign currencies		45,694	33,651	25,945
Recoveries of previously written off loans to customers and finance lease receivables	9, 10	28,849	42,739	32,579
Insurance premiums received		46,070	46,159	31,319
Insurance claims paid		(26,106)	(32,007)	(16,801)
Other operating income received		35,551	9,483	22,022
Salaries and other employee benefits paid		(100,500)	(93,870)	(88,365)
General and administrative and operating expenses paid		(72,246)	(71,872)	(80,026)
Cash flows from operating activities before changes in operating assets and liabilities		**284,438**	**218,544**	**154,448**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(179,682)	(45,090)	14,933
Loans to customers		(239,413)	(813,482)	239,093
Finance lease receivables		(49,095)	8,252	12,448
Prepayments and other assets		(63,668)	100	(28,696)
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		(213,068)	190,994	(276,916)
Amounts due to customers		708,242	731,184	81,713
Other liabilities		(32,707)	21,981	455
Net cash flows from operating activities before income tax		**215,047**	**312,483**	**197,478**
Income tax paid		(7,000)	(3,144)	(1,275)
Net cash flows from operating activities		**208,047**	**309,339**	**196,203**
Cash flows (used in) from investing activities				
Acquisition of subsidiaries, net of cash acquired	5	408	(139)	(2,970)
Proceeds from sale of subsidiary		8,747	–	–
Proceeds from sale of investment securities: available-for-sale		20,625	1,518	25,323
Purchase of investment securities: available-for-sale		(138,529)	–	–
Purchase of investment securities: held-to-maturity		–	(28,769)	(226,804)
Proceeds from sale of investments in associates	12	332	–	24
Purchase of investment properties	13	–	–	(495)
Proceeds from sale of investment properties	13	7,889	5,490	755
Proceeds from sale of property and equipment and intangible assets		–	13,312	3,404
Purchase of property and equipment and intangible assets	14, 15	(76,239)	(41,839)	(27,928)
Net cash flows used in investing activities		**(176,767)**	**(50,427)**	**(228,691)**

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Notes	2011	2010	2009
Cash flows (used in) from financing activities				
Dividends paid		(9,169)	–	–
Proceeds from increase in share capital		–	–	306
Purchase of treasury shares		(34,598)	(17,986)	(4,159)
Sale of treasury shares		28,044	7,552	1,796
Proceeds from sale of non-controlling interest in existing subsidiary		2,453	–	–
Purchase of additional interests by non-controlling shareholders		–	11,973	(1,479)
Purchase of additional interests in existing subsidiaries, net of cash acquired		–	(6,854)	(24,730)
Net cash used in financing activities		**(13,270)**	**(5,315)**	**(28,266)**
Effect of exchange rates changes on cash and cash equivalents		(863)	98	2,822
Net increase (decrease) in cash and cash equivalents		**17,147**	**253,695**	**(57,932)**
Cash and cash equivalents, beginning	7	**611,584**	**357,889**	**415,821**
Cash and cash equivalents, ending	7	**628,731**	**611,584**	**357,889**

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

JSC Bank of Georgia (the "Bank") was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994. The Bank is the ultimate parent of a group of companies (the "Group") incorporated in Georgia, Ukraine, Belarus and Cyprus, primary business activities include providing banking, leasing, insurance, brokerage and wealth management 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.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and international and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2011 the Bank has 158 operating outlets in all major cities of Georgia (31 December 2010: 142, 31 December 2009: 141). The Bank's registered legal address is 3 Pushkin Street, Tbilisi 0105, Georgia.

As at 31 December 2011, 31 December 2010 and 31 December 2009 the following shareholders owned more than 4% of the outstanding shares of the Bank. Other shareholders individually owned less than 4% of the outstanding shares.

Shareholder	***31 December 2011, %***	***31 December 2010, %***	***31 December 2009, %***
Bank of New York (Nominees), Limited	91.45%	90.50%	88.86%
East Capital Financial Institutions	4.16%	4.36%	4.36%
Others (less than 4% individually)	4.39%	5.14%	6.78%
Total	**100.00%**	**100.00%**	**100.00%**

As at 31 December 2011, the members of the Supervisory Board and Board of Directors owned 474,246 shares and Global Depositary Receipts ("GDRs") (or 1.44%; 2010: 448,232 shares and GDRs or 1.43%, 2009: 612,962 shares and GDRs or 1.96%) of the Bank. Interests of the members of the Supervisory Board and Management Board were as follows:

Shareholder	***31 December 2011, shares and GDRs held***	***31 December 2010, shares and GDRs held***	***31 December 2009, shares and GDRs held***
Irakli Gilauri	194,379	200,379	216,230
Allan Hirst	60,434	56,311	46,772
Sulkhan Gvalia	58,638	60,638	136,049
Avto Namicheishvili	39,823	34,823	29,999
Kaha Kiknavelidze	26,337	22,509	15,027
David Morrison	20,357	15,351	7,342
Neil Janin	15,729	3,945	–
Giorgi Chiladze	14,000	14,333	6,333
Mikheil Gomarteli	10,634	10,634	9,916
Al Breach	10,279	6,527	–
Archil Gachechiladze	10,000	3,700	–
Vasil Revishvili *	5,908	–	–
Ian Hague	5,112	1,578	–
Hanna Loikkanen	2,616	–	–
Irakli Burdiladze	–	17,504	23,035
Nicholas Enukidze**	–	–	122,259
Total	**474,246**	**448,232**	**612,962**

(Thousands of Georgian Lari)

1. Principal Activities (continued)

As at 31 December 2011, 330,973 unrestricted (readily available for sale) GDRs owned by the members of the Management Board comprised as follows (in 2010: 292,395, 2009: 419,814):

Member of the Management Board	***31 December 2011***	***31 December 2010***	***31 December 2009***
Irakli Gilauri	192,792	198,792	214,643
Sulkhan Gvalia	58,638	13,801	13,999
Avto Namicheishvili	39,001	34,001	29,999
Giorgi Chiladze	14,000	14,333	6,333
Mikheil Gomarteli	10,634	10,634	9,916
Archil Gachechiladze	10,000	3,700	–
Vasil Revishvili	5,908	–	–
Irakli Burdiladze	–	17,134	22,665
Nicholas Enukidze**	–	–	122,259
Total	**330,973**	**292,395**	**419,814**

**** Was appointed as member of the Management Board on 3 May 2011.***

In addition to shares held, the members of the Management Board were awarded or were committed to award 143,500 GDRs in 2011 (2010: 1,290,711, 2009: 463,912 to the Supervisory Board and Management Board). 143,500 GDRs that were awarded to the Management Board in 2011 are subject to two-year vesting. Out of the total of 1,290,711 in 2010, 915,000 shares that were committed to be awarded to the Management Board are subject to four-year vesting and the rest of the awards are subject to three-year vesting.

2. Bases of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank and its Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari in accordance with IFRS, while Subsidiaries established outside of Georgia are in their respective local currencies. These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets and liabilities held for trading, available-for-sale securities, investment properties and revalued property and equipment.

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), except per share amounts and unless otherwise indicated.

(Thousands of Georgian Lari)

2. Bases of Preparation (continued)

Subsidiaries

The consolidated financial statements as at 31 December 2011, 31 December 2010 and 31 December 2009 include the following direct and indirect subsidiaries:

Subsidiaries	Ownership / voting, % 31 December 2011	31 December 2010	31 December 2009	Country of incorporation	Industry	Date of incorporation	Date of acquisition
PJSC Bank Pershyi (formerly known as JSC BG Bank) (i)	19.4%	99.4%	99.4%	Ukraine	Banking	26/01/1994	1/10/2007
Valimed, Unitarnoe Predpreyatie (originally LLC)	(a)	100.0%	100.0%	Belarus	Investment	14/09/2000	3/06/2008
⇒ Proscale M, UE	–	(b)	100.0%	Belarus	Business servicing	15/05/2003	4/12/2009
JSC BG Capital (Georgia) (formerly known as JSC Galt and Taggart Securities)	100.0%	100.0%	100.0%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
⇒ Benderlock Investments Limited	100.0%	100.0%	100.0%	Cyprus	Investments	12/05/2009	13/10/2009
⇒ BG Tax Advisory, LLC	100.0%	100.0%	100.0%	Georgia	Tax consulting	25/09/2007	–
⇒ BG Commodities (Georgia), LLC	(c)	100.0%	100.0%	Georgia	Commodity Trading	16/04/2009	–
⇒ BG Commodities (Ukraine), LLC	100.0%	100.0%	100.0%	Ukraine	Commodity Trading	24/11/2009	–
⇒ Galt and Taggart Holdings Limited	100.0%	100.0%	100.0%	Cyprus	Investment	3/07/2006	–
⇒ BG Trading Limited	100.0%	100.0%	100.0%	Cyprus	Investment	26/03/2007	–
⇒ JSC Galt and Taggart Securities, SA (Moldova)	–	(d)	95.1%	Moldova	Investment	7/07/2008	–
⇒ BG Capital (Ukraine), LLC	100.0%	100.0%	100.0%	Ukraine	Brokerage	23/10/2006	–
⇒ BG Capital (Belarus), LLC	100.0%	100.0%	100.0%	Belarus	Brokerage	19/02/2008	–
⇒ Brooksby Investments Limited	100.0%	100.0%	100.0%	Cyprus	Investments	4/03/2008	18/06/2008
⇒ JSC Belarusky Narodny Bank	79.99%	79.99%	99.98%	Belarus	Banking	16/04/1992	3/06/2008
⇒ ⇒ BNB Leasing, LLC	99.9%	99.9%	76.0%	Belarus	Leasing	30/03/2006	3/06/2008
JSC Insurance Company Aldagi BCI	100.0%	100.0%	100.0%	Georgia	Insurance	22/06/2007	–
⇒ Biznes Centri Kazbegze, LLC	100.0%	–	–	Georgia	Various	22/06/2010	1/10/2011
⇒ JSC My Family Clinic	51.0%	100.0%	100.0%	Georgia	Healthcare	3/10/2005	–
⇒ ⇒ JSC Kutaisi St. Nicholas Surgery Hospital	55.0%	55.0%	55.0%	Georgia	Medical services	3/11/2000	20/05/2008
⇒ ⇒ Kutaisi Regional Clinical Hospital, LLC	100.0%	100.0%	–	Georgia	Medical services	19/07/2010	1/10/2010
⇒ ⇒ JSC Zugdidi multi profile Clinical Hospital "Republic"	100.0%	–	–	Georgia	Medical services	11/06/1998	29/11/2011
⇒ ⇒ JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	66.7%	–	–	Georgia	Medical services	05/05/2003	29/11/2011
⇒ ⇒ JSC Chkhorotskhu Regional Central Hospital	100.0%	–	–	Georgia	Medical services	30/11/1999	29/11/2011
⇒ ⇒ Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	66.7%	–	–	Georgia	Medical services	15/10/2004	09/12/2011
⇒ ⇒ E.K. Pipia Central Hospital of Tsalenjikha, LLC	100.0%	–	–	Georgia	Medical services	01/09/1999	09/12/2011
⇒ ⇒ Martvili Multi profile Hospital, LLC	100.0%	–	–	Georgia	Medical services	17/03/2000	09/12/2011
⇒ ⇒ Abasha Outpatient-Polyclinic Union, LLC	100.0%	–	–	Georgia	Medical services	16/03/2000	09/12/2011
⇒ ⇒ Tskaltubo Regional Hospital, LLC	66.7%	–	–	Georgia	Medical services	29/09/1999	09/12/2011
⇒ ⇒ Khobi Central Regional Hospital, LLC	100.0%	–	–	Georgia	Medical services	13/07/2000	09/12/2011
Georgian Leasing Company, LLC	100.0%	100.0%	100.0%	Georgia	Leasing	29/10/2001	31/12/2004
⇒ JSC DBL.ge	–	(e)	100.0%	Georgia	Investment	23/04/2007	–
⇒ JSC DBL Capital	–	(e)	100.0%	Georgia	Brokerage	27/04/2007	–
JSC GC Holdings (formerly LLC)	100.0%	100.0%	100.0%	Georgia	Investment	29/10/2007	–
⇒ GC Ukraine, LLC	–	(d)	100.0%	Ukraine	Card processing	30/07/2008	–
⇒ JSC Georgian Card	71.78%	71.78%	55.8%	Georgia	Card processing	17/01/1997	20/10/2004
⇒ Direct Debit Georgia, LLC	100.0%	100.0%	100.0%	Georgia	Electronic payment services	7/03/2006	–
⇒ MetroNet, LLC	100.0%	100.0%	100.0%	Georgia	Communication services	23/04/2007	–
JSC Liberty Consumer	67.08%	65.3%	65.3%	Georgia	Investment	24/05/2006	–
⇒ JSC Teliani Valley	51.14%	52.33%	27.19%	Georgia	Winery	30/06/2000	28/02/2007
⇒ ⇒ Teliani Trading (Georgia), LLC	100.0%	100.0%	–	Georgia	Distribution	10/01/2006	27/03/2007
⇒ ⇒ Teliani Trading (Ukraine), LLC	100.0%	100.0%	–	Ukraine	Distribution	03/10/2006	31/12/2007
⇒ ⇒ Le Caucase, LLC	100.0%	100.0%	–	Georgia	Cognac Production	23/09/2006	20/03/2007
⇒ ⇒ Kupa, LLC	70.0%	70.0%	–	Georgia	Oak Barrel Production	12/10/2006	20/03/2007
⇒ JSC SB Outdoor & Indoor	–	(f)	100.0%	Georgia	Advertising	9/06/2006	–
⇒ JSC Intertour	97.02%	97.02%	83.6%	Georgia	Travel agency	29/03/1996	25/04/2006
⇒ ⇒ Intertour Ukraine, LLC	(a)	100.0%	–	Ukraine	Travel agency	19/02/2010	–
⇒ ⇒ Holiday Travel, LLC	100.0%	100.0%	100.0%	Georgia	Travel agency	11/02/2005	4/09/2006
⇒ JSC Prime Fitness	100.0%	100.0%	100.0%	Georgia	Fitness centre	3/07/2006	–
⇒ Planeta Forte, LLC	51.0%	51.0%	51.0%	Georgia	Newspaper Retail	31/10/1995	1/01/2009

(Thousands of Georgian Lari)

2. Bases of Preparation (continued)

Subsidiaries (continued)

Subsidiaries	*Ownership / voting, %* 31 December 2011	31 December 2010	31 December 2009	*Country of incorporation*	*Industry*	*Date of incorporation*	*Date of acquisition*
JSC SB Real Estate	100.0%	100.0%	61.4%	Georgia	Real estate	27/09/2006	–
⇒ Caucasus Autohause, LLC	100.0%	–	–	Georgia	Real estate	29/03/2011	–
⇒ Tamarashvili 13, LLC	100.0%	–	–	Georgia	Real estate	03/11/2011	–
JSC Galt and Taggart Holdings (Georgia)	100.0%	100.0%	100.0%	Georgia	Investment	4/11/2008	–
⇒ JSC Club 24	–	(g)	100.0%	Georgia	Entertainment	27/11/2007	–
⇒ Metro Service +, LLC	100.0%	100.0%	100.0%	Georgia	Business servicing	10/05/2006	–
⇒ Georgia Financial Investments, LLC	100.0%	100.0%	100.0%	Israel	Information Sharing and Market Research	9/02/2009	–
⇒ Real Estate Brokerage-Presto, LLC	–	(g)	100.0%	Georgia	Real estate brokerage	16/11/2007	–
⇒ JSC SB Immobiliare	–	(g)	100.0%	Georgia	Real estate, Construction	12/03/2008	–
⇒ JSC SB Iberia	–	(h)	100.0%	Georgia	Real estate, Construction	13/12/2007	19/08/2009
⇒ JSC SB Iberia 2	–	(h)	100.0%	Georgia	Real estate, Construction	28/03/2008	19/08/2009
⇒ Bank of Georgia Representative Office UK Limited	100.0%	100.0%	–	United Kingdom	Information Sharing and Market Research	17/08/2010	–
⇒ Professional Basketball Club Dinamo Tbilisi, LLC	100.0%	–	–	Georgia	Investment	01/10/2011	–
JSC United Securities Registrar of Georgia	100.0%	100.0%	100.0%	Georgia	Registrar	29/05/2006	–

(a) No longer Group subsidiary due to sale in 2011
(b) No longer Group subsidiary due to sale in 2010
(c) BG Commodities (Georgia), LLC merged to JSC BG Capital in 2011
(d) No longer Group subsidiary due to liquidation in 2010
(e) Merged to JSC BG Capital (Georgia) in 2010
(f) Merged to JSC Prime Fitness in 2010
(g) Investment in JSC Club 24, Real Estate Brokerage-Presto, LLC and JSC Immobiliare had been contributed to the capital of JSC SB Real Estate (SBRE) by JSC Galt and Taggart Holdings (GTH). These subsidiaries (except for GTH) merged to JSC SB Real Estate in 2010
(h) Merged to JSC SB Immobiliare in 2010
(i) No longer Group subsidiary due to disposal of controlling stake in 2011.

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year ended 31 December 2011. The principal effects of these changes are as follows:

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment had no impact on the Group's consolidated financial statements.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

IAS 24 "Related party disclosures" (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011. The revised IAS 24 did not have any impact on the Group's consolidated financial statements.

IFRIC 14 "Prepayments of a Minimum Funding Requirement (Amended)"

Effective for annual periods beginning on or after 1 January 2011. IFRIC 14 provides further guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is applied retrospectively to the beginning of the earliest period presented in the first financial statements in which the entity applied the original interpretation.

Entities will need to assess whether prepayments made will now need to be re-assessed for their impact on the recoverability of pension assets. Entities applying the corridor approach to recognise actuarial gains and losses will also need to take account of the interaction between the corridor and the recoverability of the plan assets. IFRIC 14 did not have any impact on the Group's consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 did not have any impact on the Group's consolidated financial statements.

Improvements to IFRSs

In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" had impact on the accounting policies, financial position or performance of the Group, as described below.

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. The amendments to IFRS 3 have no impact on the consolidated financial statements of the Group.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures.
- IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Disclosure on transfers of financial instruments between levels of the fair value hierarchy is presented in the Note 32, disclosure on contingent liabilities is presented in the Note 22.
- Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 have no impact on the accounting policies, financial position or performance of the Group.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operating and financial activities, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interests (formerly known as minority interest) were measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Subsidiaries (continued)

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

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

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for long positions and ask price for short positions at the close of business on the reporting date, without any deduction for transaction costs.

For all other financial instruments where there is no active market, fair value is determined using valuation techniques. Valuation techniques include using recent arm's length market transactions, which are determined not to be a result of a forced transaction, involuntary liquidation or distress sale, reference to the current market value of similar instrument, discounted cash flow analysis and other relevant valuation models.

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts, and the host contract is not itself held for trading or designated at fair value through profit and loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognised in the consolidated income statement.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers or in available-for-sale securities, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of each or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated income statement.

Leases

i. Finance – Group as lessor

The Group recognizes finance lease receivables in the consolidated statement of financial position at value equal to the net investment in lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

ii. Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

iii. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

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

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

Renegotiated loans comprise carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.
The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

De-recognition of financial assets and liabilities

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories that the Bank and its Subsidiaries operate.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Taxation (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia, Ukraine, Belarus and Cyprus also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Investment properties

The Group holds certain properties as investments to earn rental income, generate capital appreciation or both. Investment properties are measured initially at cost, including subsequent costs. Subsequent to initial recognition, Investment properties is stated to fair value. Gains or losses arising from changes in fair values of investment properties are included in the consolidated income statement as "Net gains from revaluation of investment properties".

Property and equipment

Property and equipment, except for buildings, are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, 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.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the devalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset, including assets under construction, commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	Up to 100
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are amortized over the life of the related leased asset. The assets residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Other intangible assets

The Group's other intangible assets include computer software and licenses. Computer software and licenses are recognized at cost and amortized using the straight-line method over its useful life, but not exceeding a period of ten years.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognized based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognized over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the consolidated income statement by establishing an unexpired risk provision.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

Provisions for the risk of incurring losses on off-balance sheet commitments is estimated regularly based on the past history of actual losses incurred on these commitments.

Retirement and other employee benefit obligations

The Group provides management and employees of the Group, with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions from its employees. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby employees render services as consideration for the equity instruments ('equity settled transactions').

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognized together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions (a condition linked to the price of the Bank's shares) which are treated as vesting irrespective whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognized as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Contingencies

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank’s right to receive the payment is established.

Insurance premium income

For non-life insurance business, premiums written are recognized at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the reporting date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Insurance claims

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Functional and reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Bank's presentation currency. The Bank's functional currency is US Dollar effective 1 January 2007. Prior to 1 January 2007, Georgian Lari was its functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2011, 31 December 2010 and 31 December 2009 were 1.6703, 1.7728 and 1.6858 Lari to USD 1, 2.1614, 2.3500 and 2.4195 Lari to EUR 1, 2.0905, 2.2272 and 2.1156 Lari to UAH 10 and 2.0004, 5.9093 and 5.8882 Lari to BYR 10,000, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Hyperinflation accounting

With the effect from 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

In applying IAS 29, the Bank's subsidiaries in Belarus, JSC Belarusky Narodny Bank and BNB Leasing, LLC, have used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus. The CPIs for the six year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 are as follows:

Year	Index, %	Conversion Factors
2006	106.6	320.8
2007	112.1	286.2
2008	113.3	252.6
2009	110.1	229.4
2010	109.9	208.7
2011	208.7	100.0

All income and expense, profit and loss are recalculated by applying the relevant adjustment factors. Monetary assets and liabilities are not recalculated because they are already expressed in terms of the monetary unit current as at the reporting date. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as at the reporting date) are recalculated by applying the relevant index. The effect of inflation on the Bank's net non-monetary position is included in the income statement as a gain from hyperinflation

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

IFRS 9 "Financial Instruments"

In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2015. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRS 10 "Consolidated Financial Statements"

IFRS 10 Consolidated Financial Statements provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 "Joint Arrangements"

IFRS 11 Joint Arrangements improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. IFRS 11 will not have any impact on the Group's consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 Disclosure of Interests in Other Entities issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 "Fair Value Measurement"

IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

Amendments to IAS 19, "Employee benefits"

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The Group expects that these amendments will have no impact on the Group's financial position.

Improvements to IFRSs

This set of amendments includes changes to six standards and one IFRIC. It is based on the exposure draft issued in August 2009, with an additional change to IFRS 1, "First-time adoption of IFRS", which was exposed as part of the "rate-regulated activities" proposals issued in July 2009. Currently the Group addresses the implications of this set of amendments.

Amendment to IFRS 1, "First time adoption", on fixed dates and hyperinflation

These amendments include two changes to IFRS 1, "First-time adoption of IFRS". The first replaces references to a fixed date of 1 January 2004 with "the date of transition to IFRSs", thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

Amendments to IFRS 7, "Financial instruments: Disclosures" on derecognition

These amendments arise from the IASB's review of off-balance-sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. Earlier application subject to EU endorsement is permitted.

Amendment to IAS 12, "Income taxes" on deferred tax

IAS 12, "Income taxes", currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, "Investment property". This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, "Income taxes – recovery of revalued non-depreciable assets", will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

Amendment to IAS 1, "Financial statement presentation" regarding other comprehensive income

The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income.

IAS 27 (revised 2011), "Separate financial statements"

This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

IAS 28 (revised 2011), "Associates and joint ventures"

This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

(Thousands of Georgian Lari)

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, management uses its judgment and made estimates in determining the amounts recognized in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Segment reporting

In 2011 management of the Group reformed its presentation of business segments without changing principals of segmentation – only presentation format was amended – to make segment information more comprehensive and aligned with the business management practice of the Group. The Group's segmental reporting is based on the following operating segments: Retail Banking (excluding BG Bank and BNB Retail Banking), Corporate Banking (excluding BG Bank and BNB Retail Banking), Wealth Management, Corporate Center, Insurance & Healthcare (formerly named Insurance due to small size of the healthcare business included in Insurance), Affordable Housing represented by the legal entity JSC SB Real Estate (formerly included in Asset Management segment), BG Capital (formerly named Brokerage), BNB & BGB (a.k.a. JSC Belarusky Narodny Bank and JSC BG Bank, each of them was formerly distributed between Retail Banking and Corporate Banking, according to actual size of their respective Retail Banking and Corporate Banking businesses), Liberty Consumer (formerly included in Asset Management) and Other (comprising JSC Galt & Taggart Holding Georgia, formerly included in Corporate Centre. These operating segments have been further classified into Strategic, Synergistic and Non-Core, effective 1 January 2011.

Technical assessment of buildings' useful lives

In January 2011 the Bank finalized technical assessment of all of its buildings. Based on the experts' report estimated useful economic lives have been applied to all buildings starting 1 January 2011, with 100 years being the maximum, based on best estimate considerations of management. Effective 1 January 2011, the straight-line depreciation rates for buildings have been adjusted accordingly. All other factors held equal, result of this re-estimation of useful economic lives translated into decrease of annual depreciation expense by GEL 1,365.

Fair value of financial instruments

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

Determination of collateral value

Management monitors market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value to reflect current circumstances. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

Measurement of fair value of investment properties and property and equipment

Fair value of investment properties as well as at the property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using the combination of internal capitalization method (also known as discounted future cash flow method) and sales comparison method.

The estimates described above are subject to change as new transaction data and market evidence becomes available.

Allowance for impairment of loans and receivables and finance lease receivables

The Group regularly reviews its loans and receivables and finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the 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 group of loans and receivables. The Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

(Thousands of Georgian Lari)

4. Significant Accounting Judgements and Estimates (continued)

Contingent liabilities

The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required. As at 31 December 2011, the Group did not record any contingent liabilities.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Impairment of long-lived assets

Long-lived assets consist primarily of real estate investments, property, investments in associates, goodwill and intangible assets. The Group evaluates the long-lived assets for impairment annually or when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable.

Impairment of investments

The Group holds investments in several companies, including those that do not trade in an active market. Future adverse changes in market conditions or poor operating results could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Group regularly reviews its investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining whether factors exist that indicate impairment has occurred.

(Thousands of Georgian Lari)

5. Business Combinations

Acquisitions in 2011

Partner Insurance Company, LLC

On 1 December 2011 JSC Insurance Company Aldagi BCI acquired 100% of Partner Insurance Company, LLC, an insurance company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from Partner Insurance Company, LLC as at the date of acquisition was:

	Fair value recognized on acquisition
Insurance premiums receivable	2,981
Reinsurance assets	1,646
Property and equipment	507
Other assets	187
	5,321
Insurance contracts liabilities	3,304
Other insurance liabilities	2,118
Other liabilities	276
	5,698
Total identifiable net assets	**(377)**
Share in fair value of net assets acquired (100%)	(377)
Goodwill arising on acquisition	377
Consideration given	**–**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

Since the acquisition date, the Group recorded GEL 295 and GEL 164 of revenue and profit, respectively. If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill was the positive synergy brought into the Group's operations.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

Because Partner Insurance Company, LLC was acquired close to the year end, the Group had limited time to review, analyze and perform valuation of the respective net assets as well as amount of goodwill. Therefore the net assets as well as the amount of goodwill presented above are estimated provisionally as at the reporting date. The Group continues thorough full examination of these net assets and if identified proper adjustments will be made to the net assets and amount of the goodwill during the twelve month period from the acquisition date, as allowed by "Business Combinations" (IFRS 3). However, as at the reporting date management believes that materially all factors of the business combination have been captured and the estimates are materially correct.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2011 (continued)

Block Georgia Group of Companies

On 30 November 2011 JSC My Family Clinic acquired 100% of Block Georgia Group of Companies, a group of healthcare services companies operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and negative goodwill arising from business combination as at the date of acquisition was:

	Fair value recognized on acquisition
Cash and cash equivalents	408
Accounts receivable [1]	3,186
Property and equipment	37,873
Prepayments	15
Other assets	1,443
	42,925
Accounts payable	13,464
Current income tax liabilities	243
Deferred income tax liabilities	1,167
Other liabilities	8,151
	23,025
Total identifiable net assets	**19,900**
Share in fair value of net assets acquired	14,396
Negative goodwill arising on acquisition [2]	(955)
Consideration given [3]	**13,441**

[1] The fair value of the accounts receivables amounts to GEL 3,186. The gross amount of receivables is GEL 3,191. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

[2] Prior to acquisition Block Georgia Group of Companies encountered certain financial difficulties in respect with funding construction of hospitals. These difficulties resulted in lower acquisition cost which transformed into negative goodwill at acquisition - recognised in other non-operating income (Note 28).

[3] Consideration comprised of deferred cash payment of GEL 5,857. JSC My Family Clinic issued 2,713,000 ordinary shares as part of the consideration given. As a result, JSC Insurance Company Aldagi BCI's equity stake in JSC My Family Clinic was diluted to 51%.

The net cash outflow on acquisition was as follows:

	2011
Cash paid	–
Cash acquired with the subsidiary	408
Net cash inflow	**408**

The Group decided to increase their presence and investment in healthcare sector, hospital assets acquired together with existing hospitals covers two big regions of Georgia - Imereti and Samegrelo. Management considers that the deal will have positive impact on the value of the Group.

Since the acquisition date, the Group recorded GEL 2,588 and GEL 354 of revenue and profit, respectively. If the combination had taken place at the beginning of the year, the Group would have recorded GEL 31,395 and GEL 1,892 of revenue and profit respectively.

The total amount of negative goodwill is expected to be taxable upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2011 (continued)

Because Block Georgia Group of Companies was acquired close to the year end, the Group had limited time to review, analyze and perform valuation of the respective net assets as well as amount of goodwill. Therefore the net assets as well as the amount of goodwill presented above are estimated provisionally as at the reporting date. The Group continues thorough full examination of these net assets and if identified proper adjustments will be made to the net assets and amount of the goodwill during the twelve month period from the acquisition date, as allowed by "Business Combinations" (IFRS 3). However, as at the reporting date management believes that materially all factors of the business combination have been captured and the estimates are materially correct.

Acquisitions in 2010

JSC Teliani Valley

On 28 February 2010 JSC Liberty Consumer acquired 52.33% of "JSC Teliani Valley", a winery operating in Georgia and Ukraine. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from JSC Teliani Valley as at the date of acquisition was:

	Fair value recognized on acquisition
Cash and cash equivalents	296
Trading securities	954
Accounts receivable	3,596
Property and equipment	8,038
Goodwill and other intangible assets	151
Deferred income tax assets	78
Other assets	6,751
	19,864
Amounts owed to credit institutions	8,622
Accounts payable	916
Deferred income tax liabilities	395
Other liabilities	1,698
	11,631
Total identifiable net assets	**8,233**
Share in fair value of net assets acquired (52.33%)	4,308
Fair value of the previously held equity interests (27.19%)	(3,451)
Goodwill arising on acquisition	3,292
Consideration given [1]	**4,149**

The net cash inflow on acquisition was as follows:

	2010
Cash paid	–
Cash acquired with the subsidiary	296
Net cash inflow	**296**

[1] Consideration comprised of the Group's investment in available-for-sale investment securities in the form of common shares of JSC Nikora.

At the acquisition date, non-controlling interests comprised GEL 3,925 and was measured at the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

Since the acquisition date, the Group recorded GEL 8,293, GEL 355 and GEL 115 of revenue, profit and other comprehensive income, respectively. If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2010 (continued)

Kutaisi Regional Clinical Hospital, LLC

On 1 October 2010 JSC My Family Clinic acquired 100% of Kutaisi Regional Clinical Hospital, LLC, a medical services provider company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from Kutaisi Regional Clinical Hospital, LLC as at the date of acquisition was:

	Fair value recognized on acquisition	*Carrying value*
Property and equipment	658	481
	658	**481**
Accounts payable	17	17
Deferred income tax liabilities	27	27
	44	**44**
Fair value of net assets	**614**	**437**
Share in fair value of net assets acquired (100%)	614	
Negative goodwill arising on acquisition	(179)	
Consideration given	**435**	

The net cash outflow on acquisition was as follows:

	2010
Cash paid	(435)
Cash acquired with the subsidiary	–
Net cash outflow	**(435)**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

Since the acquisition date, the Group recorded GEL 629 and GEL 98 of revenue and profit, respectively. If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The total amount of negative goodwill is expected to be taxable upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2009

Planeta Forte, LLC

On 1 January 2009 JSC Liberty Consumer acquired 51% of "Planeta Forte, LLC", a newspaper retailer company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities of Planeta Forte, LLC as at the date of acquisition were estimated at:

	Fair value recognized on acquisition	*Carrying value*
Cash and cash equivalents	4	4
Property and equipment	55	55
Other assets	460	460
	519	**519**
Other liabilities	486	486
	486	**486**
Fair value of net assets	**33**	**33**
Share in fair value of net assets acquired (51%)	17	
Goodwill arising on acquisition	364	
Consideration given	**381**	

The net cash outflow on acquisition was as follows:

	2009
Cash paid	(381)
Cash acquired with the subsidiary	4
Net cash outflow	**(377)**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

At the acquisition date, non-controlling interest comprised GEL 16 and was measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2009 (continued)

JSC SB Iberia

On 19 August 2009 JSC SB Immobiliare, a fully owned subsidiary of the Bank acquired 100% of JSC "SB Iberia", a real estate developing company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities of JSC SB Iberia as at the date of acquisition were estimated at:

	Fair value recognized on acquisition	*Carrying value*
Cash and cash equivalents	11	11
Investment property	4,547	4,547
Deferred income tax assets	826	826
Prepayments	102	102
Other assets	7	7
	5,493	**5,493**
Amounts due to credit institutions	6,900	6,900
Accounts payable (trade & service)	2,156	2,156
Deferred income tax liabilities	12	12
	9,068	**9,068**
Fair value of net assets	**(3,575)**	**(3,575)**
Share in fair value of net assets acquired (100%)	(3,575)	
Goodwill arising on acquisition	3,907	
Consideration given	**332**	

The net cash outflow on acquisition was as follows:

	2009
Cash paid	(332)
Cash acquired with the subsidiary	11
Net cash outflow	**(321)**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2009 (continued)

JSC SB Iberia 2

On 19 August 2009 JSC SB Immobiliare, a fully owned subsidiary of the Bank acquired 100% of JSC "SB Iberia 2", a real estate developing company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities of JSC SB Iberia 2 as at the date of acquisition were estimated at:

	Fair value recognized on acquisition	***Carrying value***
Cash and cash equivalents	14	14
Investment property	8,083	8,083
Deferred income tax assets	778	778
Prepayments	6	6
Other assets	64	64
	8,945	**8,945**
Amounts due to credit institutions	5,913	5,913
Deferred income tax liabilities	8	8
	5,921	**5,921**
Fair value of net assets	**3,024**	**3,024**
Share in fair value of net assets acquired (100%)	3,024	
Goodwill arising on acquisition	744	
Consideration given	**3,768**	

The net cash outflow on acquisition was as follows:

	2009
Cash paid	(2,286)
Cash acquired with the subsidiary	14
Net cash outflow	**(2,272)**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

6. Segment Information

For management purposes, the Group is organised into the following operating segments based on products and services as follows:

Retail Banking (excluding Retail Banking of BG Bank and BNB) - Principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling customers' deposits for both, individuals as well as legal entities, encompassing mass affluent segment, retail mass markets, small & medium enterprises and micro businesses.

Corporate Banking (excluding Corporate Banking of BG Bank and BNB) - Principally providing loans and other credit facilities to large VIP as well as other legal entities, larger than SME and Micro, finance lease facilities provided by Georgian Leasing Company LLC, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers.

Wealth Management - Principally providing private banking services to resident as well as non-resident wealthy individuals as well as their direct family members by ensuring individually distinguished approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Wealth Management involves providing wealth and asset management services to same individuals through different investment opportunities and specifically designed investment products.

Corporate Centre - Principally providing back office services to all operating segments of the Bank as well as holding all principal investments in subsidiaries.

Insurance & Healthcare - Principally providing wide-scale non-life insurance as well as integrated healthcare services to corporate clients and insured individuals.

Affordable Housing (formerly included in Asset Management) - Comprising JSC SB Real Estate, principally holding investment property repossessed by the Bank from defaulted borrowers, managing those property, developing and selling affordable residential apartments.

BG Capital (formerly named Brokerage) - Principally providing brokerage, custody and corporate finance services, mostly to wealthy or mass affluent individuals as well as to corporate customers.

BNB & BGB - Comprising JSC Belarusky Narodny Bank and JSC BG Bank (disposed of in February 2011), principally providing retail and corporate banking services in Belarus and Ukraine.

Liberty Consumer (formerly included in Asset Management) - Principally holding private equity investments in several non-core business enterprises, such as winery, fitness centre, travel agencies, outdoor or indoor advertising company, regional car dealership, hotels and restaurants management chain and other smaller investments, all designated for disposal.

Other (formerly included in Corporate Centre) - Comprising JSC Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Bank on behalf of the Bank.

For purposes of further consolidation of these operating segments and for more comprehensive presentation in these consolidated financial statements Management has further grouped them into large segments, classified as: Strategic, Synergistic and Non-Core.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the consolidated financial statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

Transactions between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Since 2010 the Group changed its estimates in respect of the allocation of indirect revenues and indirect expenses in JSC Bank of Georgia (stand-alone) among corporate banking, retail banking and wealth management. These changes in allocation estimates had no impact on subsidiaries. Instead, it only resulted in re-allocation of certain indirect revenues and indirect expenses in JSC Bank of Georgia stand-alone segment reporting, with no consequence on totals of segments across each line.

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2011:

	Strategic				*Synergistic*			*Non-Core*				
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance & Healthcare*	*Affordable Housing*	*BG Capital*	*BNB & BGB**	*Liberty Consumer*	*Other*	*Inter – company eliminations*	*Total*
Revenue												
External operating income:												
Net interest income (expense)	72,823	141,476	5,879	–	1,562	61	234	13,430	(1,164)	–	–	234,301
Net fees and commission income	20,346	49,769	652	–	–	–	2,542	2,028	–	–	–	75,337
Net gains (losses) from foreign currencies	29,018	12,213	706	–	(779)	(51)	(136)	35,763	(293)	–	–	76,441
Other external (expenses) revenues	6,609	5,990	168	–	29,757	1,364	196	(15)	11,071	–	–	55,140
Operating income(expense) from other segments	6,644	1,597	(48)	–	(67)	(567)	92	(246)	(38)	(199)	(7,168)	–
Revenue	**135,440**	**211,045**	**7,357**	**–**	**30,473**	**807**	**2,928**	**50,960**	**9,576**	**(199)**	**(7,168)**	**441,219**
Impairment charge (reversal) on interest earning assets	25,576	(3,107)	(51)	–	–	–	–	1,460	–	–	(345)	23,533
Results												
Profit (loss) before income tax expense from continuing operations	**60,106**	**110,366**	**3,616**	**(23,394)**	**7,263**	**(1,213)**	**(1,864)**	**19,563**	**(2,357)**	**(377)**	**345**	**172,054**
Income tax expense												(21,125)
Net loss from discontinued operations												(15,219)
Profit for the year												**135,710**
Assets and liabilities												
Segment assets	2,215,730	2,164,177	37,646	3,183	155,660	68,268	18,034	93,289	43,181	536	(157,782)	4,641,922
Unallocated assets												23,339
Total assets												**4,665,261**
Segment liabilities	1,996,036	1,268,023	451,542	–	112,573	32,242	46,704	54,875	11,022	7	(157,782)	3,815,242
Unallocated liabilities												37,416
Total liabilities												**3,852,658**
Other segment information												
Property, plant and equipment	12,992	34,638	663	–	14,899	11,233	89	1,418	831	–	–	76,763
Intangible assets	1,524	4,304	77	–	275	15	12	168	68	–	–	6,443
Capital expenditures	**14,516**	**38,942**	**740**	**–**	**15,174**	**11,248**	**101**	**1,586**	**899**	**–**	**–**	**83,206**
Depreciation	5,192	14,427	260	–	887	71	120	1,642	994	–	–	23,593
Amortization	800	2,593	39	–	48	–	17	161	3	–	–	3,661
Impairment	–	–	–	23,394	–	–	–	–	–	–	–	23,394
Investments in associates	–	–	–	–	–	–	–	–	3,014	–	–	3,014
Share of loss of associates	–	–	–	–	–	–	–	–	(487)	–	–	(487)

**** JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2010:

	Strategic				*Synergistic*			*Non-Core*				
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance & Healthcare*	*Affordable Housing*	*BG Capital*	*BNB & BGB**	*Liberty Consumer*	*Other*	*Inter – company eliminations*	*Total*
Revenue												
External operating income:												
Net interest income (expense)	74,756	116,378	3,053	–	700	27	270	21,684	(524)	–	–	216,344
Net fees and commission income	16,604	42,141	499	–	86	–	1,164	2,926	–	–	–	63,420
Net gains (losses) from foreign currencies	21,387	9,211	642	–	267	30	52	2,252	(92)	–	–	33,749
Other external (expenses) revenues	(2,130)	1,184	(53)	–	19,465	2,257	3,009	749	8,639	–	–	33,120
Operating income(expense) from other segments	12,484	527	–	–	380	(1,371)	(231)	(426)	(536)	154	(10,981)	–
Revenue	**123,101**	**169,441**	**4,141**	**–**	**20,898**	**943**	**4,264**	**27,185**	**7,487**	**154**	**(10,981)**	**346,633**
Impairment charge (reversal) on interest earning assets	12,801	29,073	(2,632)	–	–	–	–	4,096	–	–	773	44,111
Results												
Profit (loss) before income tax expense	**68,740**	**39,952**	**2,028**	**–**	**5,568**	**(3,747)**	**(4,838)**	**(3,605)**	**(4,964)**	**82**	**(773)**	**98,443**
Income tax expense												(15,776)
Profit for the year												**82,667**
Assets and liabilities												
Segment assets	1,745,431	1,746,185	43,083	28,265	83,380	28,448	20,013	342,353	44,765	–	(97,426)	3,984,497
Unallocated assets												20,425
Total assets												**4,004,922**
Segment liabilities	1,552,368	1,176,859	261,638	–	61,542	3,193	41,435	264,069	12,751	–	(97,426)	3,276,429
Unallocated liabilities												35,152
Total liabilities												**3,311,581**
Other segment information												
Property, plant and equipment	6,157	19,006	482	–	3,290	34	144	6,743	578	–	–	36,434
Intangible assets	1,347	3,540	85	–	39	6	3	355	3,473	–	–	8,848
Capital expenditures	**7,504**	**22,546**	**567**	–	**3,329**	**40**	**147**	**7,098**	**4,051**	**–**	**–**	**45,282**
Depreciation	4,980	16,107	402	–	634	125	163	1,190	909	–	–	24,510
Amortization	629	2,401	50	–	29	–	29	305	10	–	–	3,453
Impairment	318	108	9	–	–	–	–	–	–	–	–	435
Investments in associates	–	–	–	–	–	–	–	–	5,632	–	–	5,632
Share of loss of associates	–	–	–	–	–	–	–	–	255	–	–	255

**** JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2009:

	Strategic				*Synergistic*			*Non-Core*				
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance & Healthcare*	*Affordable Housing*	*BG Capital*	*BNB & BGB**	*Liberty Consumer*	*Other*	*Inter – company eliminations*	*Total*
Revenue												
External operating income:												
Net interest income (expense)	48,844	117,679	2,340	–	(36)	(188)	333	21,612	(43)	–	–	190,541
Net fees and commission income	13,095	34,895	342	–	1,006	–	2,305	3,382	–	–	–	55,025
Net gains (losses) from foreign currencies	13,886	9,706	718	–	61	(413)	808	4,307	10	–	–	29,083
Other external (expenses) revenues	8,599	125	337	–	17,346	(12,869)	3,336	1,120	2,248	–	–	20,242
Operating income (expense) from other segments	11,327	138	–	–	947	(1,214)	370	(1,261)	(2,620)	(403)	(7,284)	–
Revenue	**95,751**	**162,543**	**3,737**	**–**	**19,324**	**(14,684)**	**7,152**	**29,160**	**(405)**	**(403)**	**(7,284)**	**294,891**
Impairment charge (reversal) on interest earning assets	12,667	69,598	3,626	–	–	–	–	41,277	–	–	(1,427)	125,741
Results												
Profit (loss) before income tax benefit	**36,847**	**5,229**	**(4,677)**	**(68,550)**	**2,969**	**(26,918)**	**(1,788)**	**(43,527)**	**(6,914)**	**(4)**	**1,427**	**(105,906)**
Income tax benefit												6,998
Loss for the year												**(98,908)**
Assets and liabilities												
Segment assets	1,184,586	1,313,041	49,467	28,265	70,618	49,510	14,446	273,670	31,178	15	(124,851)	2,889,945
Unallocated assets												23,484
Total assets												**2,913,429**
Segment liabilities	995,144	939,268	163,067	–	54,034	36,130	36,719	187,570	2,696	–	(124,851)	2,289,777
Unallocated liabilities												25,235
Total liabilities												**2,315,012**
Other segment information												
Property, plant and equipment	10,017	8,681	500	–	960	10	312	2,713	234	–	–	23,427
Intangible assets	2,349	1,406	82	–	22	4,650	49	587	371	–	–	9,516
Capital expenditures, of which:	**12,366**	**10,087**	**582**	**–**	**982**	**4,660**	**361**	**3,300**	**605**	**–**	**–**	**32,943**
Depreciation	10,469	9,028	520	–	555	289	63	1,211	381	–	–	22,516
Amortization	1,619	1,000	58	–	19	–	20	194	2	–	–	2,912
Impairment	–	–	–	68,381	–	4,650	–	3,200	41	–	–	76,272
Investments in associates	–	–	–	–	–	–	–	–	10,323	–	–	10,323
Share of loss of associates	–	–	–	–	–	–	–	–	(2,649)	–	–	(2,649)

**** JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

6. Segment Information (continued)

Geographic information

The Group operates in three main geographical markets: (a) Georgia, (b) Ukraine and Cyprus and (c) Belarus. The following table shows the distribution of the Group's external income, total assets and capital expenditure allocated based on the location of the Group's assets, as at and for the year ended 31 December 2011:

	Georgia 31 December 2011	*Ukraine and Cyprus 31 December 2011*	*Belarus 31 December 2011*	*Total 31 December 2011*
External income				
Net interest income	220,871	452	12,978	234,301
Net fee and commission income	73,401	49	1,887	75,337
Net foreign currency gains (losses)	40,813	(24)	35,652	76,441
Other non-interest (loss) income	55,155	6	(21)	55,140
Total external income	**390,240**	**483**	**50,496**	**441,219**
Total assets	**4,571,776**	**–**	**93,485**	**4,665,261**
Capital expenditures	**81,620**	**–**	**1,586**	**83,206**

The following table shows the distribution of the Group's external income, total assets and capital expenditure allocated based on the location of the Group's assets, as at and for the year ended 31 December 2010:

	Georgia 31 December 2010	*Ukraine and Cyprus 31 December 2010*	*Belarus 31 December 2010*	*Total 31 December 2010*
External income				
Net interest income	196,356	9,800	10,188	216,344
Net fee and commission income	58,629	3,133	1,658	63,420
Net foreign currency gains	29,438	2,817	1,494	33,749
Other non-interest income	29,842	2,020	1,258	33,120
Total external income	**314,265**	**17,770**	**14,598**	**346,633**
Total assets	**3,664,312**	**235,582**	**105,028**	**4,004,922**
Capital expenditures	**38,115**	**5,420**	**1,747**	**45,282**

The following table shows the distribution of the Group's external income, total assets and capital expenditure allocated based on the location of the Group's assets, as at and for the year ended 31 December 2009:

	Georgia 31 December 2009	*Ukraine and Cyprus 31 December 2009*	*Belarus 31 December 2009*	*Total 31 December 2009*
External income				
Net interest income	169,167	16,417	4,957	190,541
Net fee and commission income	50,132	3,404	1,489	55,025
Net foreign currency gains	23,977	3,480	1,626	29,083
Other non-interest income	14,722	5,094	426	20,242
Total external income	**257,998**	**28,395**	**8,498**	**294,891**
Total assets	**2,600,684**	**232,730**	**80,015**	**2,913,429**
Capital expenditures	**29,338**	**3,214**	**391**	**32,943**

Amounts of non-current assets, other than financial instruments, concentrated in foreign locations (outside Georgia) are immaterial compared to total assets of the Group.

(Thousands of Georgian Lari)

7. Cash and Cash Equivalents

	2011	*2010*	*2009*
Cash on hand	163,001	161,749	154,861
Current accounts with central banks, excluding obligatory reserves	54,830	58,958	44,101
Current accounts with other credit institutions	304,910	161,290	34,944
Time deposits with credit institutions up to 90 days	105,990	229,587	123,983
Cash and cash equivalents	**628,731**	**611,584**	**357,889**

As at 31 December 2011 GEL 304,231 (2010: GEL 367,956, 2009: GEL 127,816) was placed on current and time deposit accounts with internationally recognized OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 5.1% interest per annum on these deposits (2010: 1.74%, 2009: 0.17%).

8. Amounts Due from Credit Institutions

	2011	*2010*	*2009*
Obligatory reserves with central banks	270,335	90,378	41,791
Time deposits with effective maturity of more than 90 days	14,318	20,809	18,599
Inter-bank loan receivables	4,877	5,282	4,230
Amounts due from credit institutions	**289,530**	**116,469**	**64,620**

Obligatory reserves with central banks represent amounts deposited with the NBG ("National Bank of Georgia"), the NBU ("National Bank of Ukraine") and the NBRB (National Bank of the Republic of Belarus). Credit institutions are required to maintain an interest-earning cash deposit (obligatory reserve) with central banks, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group earned up to 1% annual interest on obligatory reserves with NBG for the years ended 31 December 2011 and 31 December 2010. The Group earned up to 2% annual interest on obligatory reserve with NBG in 2009.

As at 31 December 2011 GEL 277 (2010: GEL 14,538, 2009: GEL 10,940) was placed on current accounts and inter-bank time deposits with one (2010: three, 2009: seven) internationally recognised OECD banks. Those amounts were pledged to the counterparty bank as security for open commitments.

As at 31 December 2011 inter-bank loan receivables include GEL 4,176 (2010: GEL 4,436, 2009: GEL 4,215) placed with non-OECD banks of Azerbaijan.

9. Loans to Customers

	2011	*2010*	*2009*
Commercial loans	1,363,058	1,424,550	939,814
Consumer loans	516,733	383,615	332,537
Residential mortgage loans	390,997	409,786	387,415
Micro and SME loans	318,566	238,462	99,981
Gold – pawn loans	78,785	66,749	62,829
Others	–	4,071	5,241
Loans to customers, gross	**2,668,139**	**2,527,233**	**1,827,817**
Less – Allowance for loan impairment	(114,697)	(175,536)	(166,486)
Loans to customers, net	**2,553,442**	**2,351,697**	**1,661,331**

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Allowance for loan impairment

Movements of the allowance for impairment of loans to customers by class are as follows:

	Commercial loans 2011	*Consumer loans 2011*	*Residential mortgage loans 2011*	*Micro loans 2011*	*Others 2011*	*Total 2011*
At 1 January	**114,499**	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Charge (reversal)	24,017	(1,086)	1,033	(721)	(27)	23,216
Recoveries	2,900	15,158	7,404	3,387	–	28,849
Write-offs	(23,752)	(15,459)	(7,881)	(2,639)	–	(49,731)
Disposal of subsidiary	(43,593)	–	(11,714)	(65)	(803)	(56,175)
Interest accrued on impaired loans	(3,997)	(1,390)	(1,569)	(349)	–	(7,305)
Currency translation difference	32	(99)	330	3	41	307
At 31 December	**70,106**	**28,997**	**10,027**	**5,567**	**–**	**114,697**
Individual impairment	61,852	7,304	5,173	1,841	–	76,170
Collective impairment	8,254	21,693	4,854	3,726	–	38,527
	70,106	**28,997**	**10,027**	**5,567**	**–**	**114,697**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**206,030**	**15,195**	**21,709**	**5,492**	**–**	**248,426**

	Commercial loans 2010	*Consumer loans 2010*	*Residential mortgage loans 2010*	*Micro loans 2010*	*Others 2010*	*Total 2010*
At 1 January	**82,042**	**54,989**	**23,490**	**3,788**	**2,177**	**166,486**
Charge	23,932	7,571	18,440	1,474	(1,531)	49,886
Recoveries	21,090	15,208	3,249	3,150	42	42,739
Write-offs	(13,074)	(42,798)	(19,441)	(2,138)	–	(77,451)
Interest accrued on impaired loans	(1,392)	(3,306)	(3,681)	(360)	–	(8,739)
Currency translation difference	1,901	209	367	37	101	2,615
At 31 December	**114,499**	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Individual impairment	68,145	13,148	16,606	2,433	315	100,647
Collective impairment	46,354	18,725	5,818	3,518	474	74,889
	114,499	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**192,778**	**21,996**	**51,585**	**9,051**	**973**	**276,383**

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Allowance for loan impairment (continued)

	Commercial loans 2009	*Consumer loans 2009*	*Residential mortgage loans 2009*	*Micro loans 2009*	*Gold-pawn loans 2009*	*Others 2009*	*Total 2009*
At 1 January	**45,755**	**42,153**	**7,969**	**4,921**	**–**	**5,803**	**106,601**
Charge	44,357	52,839	19,023	5,981	8	(3,326)	118,882
Recoveries	17,839	8,469	2,170	2,016	–	11	30,505
Write-offs	(24,295)	(43,073)	(5,209)	(8,207)	(8)	(1)	(80,793)
Interest accrued on impaired loans	(1,088)	(5,216)	(396)	(891)	–	–	(7,591)
Currency translation difference	(526)	(183)	(67)	(32)	–	(310)	(1,118)
At 31 December	**82,042**	**54,989**	**23,490**	**3,788**	**–**	**2,177**	**166,486**
Individual impairment	75,684	42,824	20,479	1,907	–	–	140,894
Collective impairment	6,358	12,165	3,011	1,881	–	2,177	25,592
	82,042	**54,989**	**23,490**	**3,788**	**–**	**2,177**	**166,486**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**351,835**	**67,345**	**84,448**	**6,731**	**–**	**2,037**	**512,396**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized as at 31 December 2011 comprised GEL 14,914 (2010: GEL 18,640, 2009: GEL 17,055).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory trade receivables and third party corporate guarantees.
- For retail lending, mortgages over residential properties, cars, gold and jewellery and third party corporate guarantees.

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

Concentration of loans to customers

As at 31 December 2011 concentration of loans granted by the Group to ten largest third party borrowers comprised GEL 402,989 accounting for 15% of gross loan portfolio of the Group (2010: GEL 383,971 and 15% respectively, 2009: GEL 206,981 and 11% respectively). An allowance of GEL 7,033 (2010: GEL 3,837, 2009: GEL 9,891) was established against these loans.

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2011, 31 December 2010 and 31 December 2009 loans are principally issued within Georgia, and their distribution by industry sector is as follows:

	2011	*2010*	*2009*
Individuals	1,132,740	1,006,046	862,365
Trade and services	972,290	858,878	578,623
Construction and development	228,412	274,623	150,676
Mining	122,771	137,583	62,622
Transport and communication	83,289	77,792	81,532
Energy	65,360	62,424	11,667
Agriculture	8,709	18,089	13,730
Others	54,568	91,798	66,602
Loans to customers, gross	**2,668,139**	**2,527,233**	**1,827,817**
Less – allowance for loan impairment	(114,697)	(175,536)	(166,486)
Loans to customers, net	**2,553,442**	**2,351,697**	**1,661,331**

Loans have been extended to the following types of customers:

	2011	*2010*	*2009*
Private companies	1,492,124	1,488,577	934,494
Individuals	1,132,740	1,006,046	862,365
State-owned entities	43,275	32,610	30,958
Loans to customers, gross	**2,668,139**	**2,527,233**	**1,827,817**
Less – allowance for loan impairment	(114,697)	(175,536)	(166,486)
Loans to customers, net	**2,553,442**	**2,351,697**	**1,661,331**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2011, 31 December 2010 and 31 December 2009:

	2011			*2010*			*2009*		
	Individual impairment 2011	*Collective impairment 2011*	*Total 2011*	*Individual impairment 2010*	*Collective impairment 2010*	*Total 2010*	*Individual impairment 2009*	*Collective impairment 2009*	*Total 2009*
At 1 January	**100,647**	**74,889**	**175,536**	**140,894**	**25,592**	**166,486**	**72,614**	**33,987**	**106,601**
Charge (reversal) for the year	20,135	3,081	23,216	(8,950)	58,836	49,886	105,477	13,405	118,882
Recoveries	16,563	12,286	28,849	25,247	17,492	42,739	17,237	13,268	30,505
Write-offs	(39,342)	(10,389)	(49,731)	(54,534)	(22,917)	(77,451)	(49,587)	(31,206)	(80,793)
Disposal of subsidiary	(16,110)	(40,065)	(56,175)	–	–	–	–	–	–
Interest accrued on impairment loans to customers	(6,094)	(1,211)	(7,305)	(7,216)	(1,523)	(8,739)	(3,801)	(3,790)	(7,591)
Currency translation differences	371	(64)	307	5,206	(2,591)	2,615	(1,046)	(72)	(1,118)
At 31 December	**76,170**	**38,527**	**114,697**	**100,647**	**74,889**	**175,536**	**140,894**	**25,592**	**166,486**

(Thousands of Georgian Lari)

10. Finance Lease Receivables

	2011	*2010*	*2009*
Minimum lease payments receivables	82,682	18,521	27,816
Less – Unearned finance lease income	(19,323)	(3,514)	(3,776)
	63,359	**15,007**	**24,040**
Less – Allowance for impairment	(440)	(588)	(7,144)
Finance lease receivables, net	**62,919**	**14,419**	**16,896**

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 31 December 2011, concentration of investments in five largest leases comprised GEL 52,573 or 83% of total finance lease receivables (2010: GEL 3,541 or 24%, 2009: GEL 16,013 or 67%) and finance income received from them for the year ended 31 December 2011 comprised GEL 2,986 or 52% of total finance income from lease (2010: GEL 479 or 12%, 2009: GEL 1,567 or 27%).

Future minimum lease payments to be received after 31 December 2011, 31 December 2010 and 31 December 2009 are as follows:

	2011	*2010*	*2009*
Within 1 year	18,485	10,266	19,693
From 1 to 5 years	43,543	8,255	8,123
More than 5 years	20,654	–	–
Minimum lease payment receivables	**82,682**	**18,521**	**27,816**

Minimum lease payments to be received after 31 December 2011, 31 December 2010 and 31 December 2009 are denominated in the following currencies:

	2011	*2010*	*2009*
US Dollars	74,836	5,840	9,554
Euros	4,984	7,993	5,851
Belarusian Rubles	2,571	4,688	1,035
Ukrainian Hryvnias	291	–	11,376
Minimum lease payment receivables	**82,682**	**18,521**	**27,816**

The equipment the Group leases out at 31 December 2011, 31 December 2010 and 31 December 2009 can be segregated into the following categories:

	2011		*2010*		*2009*	
	Amount	*Number of projects*	*Amount*	*Number of projects*	*Amount*	*Number of projects*
Air and land transport	68,570	93	10,022	141	7,559	116
Machinery & equipment	8,847	133	4,356	38	3,885	31
Construction equipment	5,265	54	4,143	30	16,372	21
Minimum lease payment receivables	**82,682**	**280**	**18,521**	**209**	**27,816**	**168**

(Thousands of Georgian Lari)

10. Finance Lease Receivables (continued)

Movements of the allowance for impairment of finance lease receivables are as follows:

	Finance lease receivables 2011	*Finance lease receivables 2010*	*Finance lease receivables 2009*
At 1 January	**588**	**7,144**	**2,163**
(Reversal) Charge	317	(5,775)	6,859
Recoveries	–	–	2,074
Amounts written-off	(193)	(1,210)	(3,689)
Currency translation difference	(272)	429	(263)
At 31 December	**440**	**588**	**7,144**
Individual impairment	93	232	6,916
Collective impairment	347	356	228
	440	**588**	**7,144**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**155**	**–**	**13,703**

11. Investment Securities

Available-for-sale securities comprise:

	2011	*2010*	*2009*
Certificates of deposit of central banks	199,142	104,969	–
Ministry of Finance treasury bonds	120,255	52,120	–
Ministry of Finance treasury bills	88,657	128,539	4,044
Corporate shares	11,501	11,294	13,418
Corporate bonds	21	–	2,946
	419,576	**296,922**	**20,408**
Less – Allowance for impairment (Note 17)	–	(1,982)	(818)
Available-for-sale securities	**419,576**	**294,940**	**19,590**

Corporate shares as at 31 December 2011 are primarily comprised of the remaining 19.4% investment in PJSC Bank Pershyi (formerly known as JSC BG Bank) of GEL 3,837 (2010, 2009: nil), investments in a chain of pharmacy stores of GEL 2,776 (2010: GEL 4,282, 2009: GEL 4,413), a Georgian chain store retailer of GEL 3,146 (2010: GEL 3,146, 2009: GEL 2,677) and a real estate company of GEL 1,145 (2010: GEL 1,145, 2009: nil).

Nominal interest rates and maturities, in years, of these securities are as follows:

	2011		*2010*		*2009*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Certificates of deposit of central banks	8.04	1	9.98	1	–	–
Ministry of Finance treasury bonds	12.76	1-2	15.32	1-2	–	–
Ministry of Finance treasury bills	9.69	1	10.03	1	9.50	1-2
Corporate bonds	15.00	1	–	–	19.76	1-2

(Thousands of Georgian Lari)

11. Investment Securities (continued)

Held-to-maturity securities comprise:

	2011		*2010*		*2009*	
	Carrying value	***Nominal value***	***Carrying value***	***Nominal value***	***Carrying value***	***Nominal value***
Corporate bonds	–	–	21	20	–	–
Certificates of deposit of central banks	–	–	–	–	105,143	105,624
Ministry of Finance treasury bills	–	–	–	–	144,053	149,124
State debt securities	–	–	–	–	–	–
Held-to-maturity securities	**–**	**–**	**21**	**20**	**249,196**	**254,748**

Contractual interest rates and maturities, in years, of these securities are as follows:

	2011		*2010*		*2009*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Corporate Bonds	–	–	10.00	2011	–	–
Certificates of deposit of central banks	–	–	–	–	3.11	2010
Ministry of Finance treasury bills	–	–	–	–	6.33	2010
State debt securities	–	–	–	–	–	–

During the second half of 2010, the Group sold part of investment securities classified as held-to-maturity. Following this transaction, the Group reclassified the remaining investments as available-for-sale, as prescribed by paragraph 52 of IAS 39. Information about the reclassified financial assets is presented in the table below:

	31 December 2010		
	Amortised cost	***Fair value***	***Fair value gain (loss) recognised in other comprehensive income***
Central banks' treasury bills	123,785	124,045	260
Certificates of deposit of central banks	104,982	104,969	(13)
Central banks' treasury bonds	51,542	52,120	578
Total reclassified	**280,309**	**281,134**	**825**

12. Investments in Associates

The following associates are accounted for under the equity method:

31 December 2011 Associates	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
JSC N Tour	30.00%	Georgia	1/11/2001	Travel services	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	25.00%	Georgia	30/05/2005	Food retail	29/05/2008
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC Caucasus Automotive Retail	30.00%	Georgia	18/04/2008	Car retail	2/05/2008
Style +, LLC	32.45%	Georgia	1/08/2005	Advertising	7/08/2008

(Thousands of Georgian Lari)

12. Investments in Associates (continued)

31 December 2010 Associates	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
JSC N Tour	30.00%	Georgia	1/11/2001	Travel services	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	25.00%	Georgia	30/05/2005	Food retail	29/05/2008
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC Info Georgia XXI	50.00%	Georgia	26/04/2001	Business services	20/05/2008
JSC Caucasus Automotive Retail	36.14%	Georgia	18/04/2008	Car retail	2/05/2008
Style +, LLC	32.45%	Georgia	1/08/2005	Advertising	7/08/2008

31 December 2009 Associates	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
JSC N Tour	30.00%	Georgia	1/11/2001	Travel services	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	25.00%	Georgia	30/05/2005	Food retail	29/05/2008
JSC Teliani Valley	27.19%	Georgia	30/06/2000	Winery	13/02/2007
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC Info Georgia XXI	50.00%	Georgia	26/04/2001	Business services	20/05/2008
JSC Caucasus Automotive Retail	30.00%	Georgia	18/04/2008	Car retail	2/05/2008
Style +, LLC	32.45%	Georgia	1/08/2005	Advertising	7/08/2008

Movements in investments in associates were as follows:

	2011	***2010***	***2009***
Investments in associates, beginning of year, gross	**7,870**	**12,834**	**16,990**
Write-off	(2,237)	(1,768)	–
Disposal	(1,624)	–	(24)
Transfers (reclassifications)	–	(3,451)	(1,483)
Net share of (loss) profit	(487)	255	(2,649)
Investments in associates, end of year, gross	**3,522**	**7,870**	**12,834**
Less – Allowance for impairment (Note 17)	(508)	(2,238)	(2,511)
Investments in associates, end of year, net	**3,014**	**5,632**	**10,323**

Investments in associates at 31 December 2011 include goodwill of GEL 2,209 (2010: GEL 3,399, 2009: GEL 3,120). Write-off of GEL 2,237 comprise of GEL 1,148 investment in N Tour, GEL 581 investment in JSC Caucasus Automotive Retail and GEL 508 investment in Style +, LLC. Disposal of GEL 1,624 is the sale of JSC Info-Georgia XXI. Reclassification of GEL 3,451 in 2010 comprises investment in JSC Teliani Valley. Reclassifications of GEL 1,483 in 2009 comprise investments in SB Iberia and SB Iberia 2. Subsequent to acquisition of controlling stakes in these companies, the Group added previous investments of GEL 1,483 to total acquisition cost of these companies and this amount affected the respective price allocation, contributing to respective goodwill arising on these acquisitions.

The following table summarises certain financial information of the associates:

Aggregated assets and liabilities of associates	***2011***	***2010***	***2009***
Assets	13,962	16,610	33,861
Liabilities	(8,880)	(8,608)	(18,329)
Net assets	**5,082**	**8,002**	**15,532**

Aggregated revenue and profit of associates	***2011***	***2010***	***2009***
Revenue	17,800	20,654	48,672
(Loss) profit	(2,550)	712	445

(Thousands of Georgian Lari)

13. Investment Properties

	2011	2010	2009
At 1 January	**113,496**	**79,509**	**47,289**
Acquisition through business combinations (Note 5)	–	–	12,630
Additions*	16,565	35,146	495
Disposals	(7,889)	(5,490)	(755)
Disposals through sale of subsidiary	(13,654)	–	–
Net change in fair value through profit and loss	1,984	350	(4,087)
Transfers (to) from property and equipment and other assets	(8,816)	3,981	23,937
At 31 December	**101,686**	**113,496**	**79,509**

**2011 and 2010 additions comprise foreclosed properties, no cash transactions were involved.*

Investment properties are stated at fair value, which has been determined based on the valuation performed by a professional valuation company, an accredited independent appraiser, as at 31 December 2011. The appraiser is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

Rental income and direct operating expenses arising from investment properties comprise:

	2011	2010	2009
Rental income	3,188	2,750	3,026
Direct operating expenses	(225)	(136)	(114)

The entire amount of direct operating expenses participated in the generation of rental income during the respective years.

(Thousands of Georgian Lari)

14. Property and Equipment

The movements in property and equipment during the year ended 31 December 2011 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2010	**150,516**	**100,559**	**42,183**	**8,341**	**7,530**	**42,766**	**351,895**
Acquisition through business combinations (Note 5)	26,055	1,958	9,461	260	–	646	38,380
Additions	10,696	11,440	8,467	1,803	328	44,029	76,763
Disposals	(3,474)	(293)	(944)	(716)	(743)	(686)	(6,856)
Disposals through sale of subsidiaries	(5,735)	(1,876)	(1,192)	(649)	(175)	(751)	(10,378)
Transfers	60,938	252	32	(122)	1,428	(62,528)	–
Transfers to investment properties	(2,500)	–	–	–	–	–	(2,500)
Revaluation	(1,561)	–	–	–	–	–	(1,561)
Effect of hyperinflation	9,474	439	703	153	99	172	11,040
Currency translation adjustment	(11,103)	(4,895)	(2,051)	(552)	(514)	(2,954)	(22,069)
31 December 2011	**233,306**	**107,584**	**56,659**	**8,518**	**7,953**	**20,694**	**434,714**
Accumulated impairment							
31 December 2010	**2,222**	**262**	**118**	**14**	**–**	**–**	**2,616**
Disposals through sale of subsidiaries	(1,307)	(261)	(49)	(13)	–	–	(1,630)
Effect of hyperinflation	2,186	34	81	7	–	–	2,308
Currency translation adjustment	(475)	2	(44)	(2)	–	–	(519)
31 December 2011	**2,626**	**37**	**106**	**6**	**–**	**–**	**2,775**
Accumulated depreciation							
31 December 2010	**1,629**	**32,192**	**21,901**	**5,187**	**2,518**	**–**	**63,427**
Depreciation charge	2,204	11,626	6,447	1,951	1,365	–	23,593
Effect of hyperinflation	35	112	286	55	9	–	497
Currency translation difference	(1,594)	(47)	1,080	(20)	(86)	–	(667)
Disposals	(83)	(283)	(694)	(673)	(546)	–	(2,279)
Disposals through sale of subsidiaries	(100)	(124)	(107)	(36)	(30)	–	(397)
Revaluation	(345)	–	–	–	–	–	(345)
31 December 2011	**1,746**	**43,476**	**28,913**	**6,464**	**3,230**	**–**	**83,829**
Net book value:							
31 December 2010	**146,665**	**68,105**	**20,164**	**3,140**	**5,012**	**42,766**	**285,852**
31 December 2011	**228,934**	**64,071**	**27,640**	**2,048**	**4,723**	**20,694**	**348,110**

(Thousands of Georgian Lari)

14. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2010 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2009	**137,705**	**90,082**	**34,753**	**7,622**	**7,870**	**55,719**	**333,751**
Acquisition through business combinations (Note 5)	3,171	258	4,628	269	–	370	8,696
Additions	805	11,250	2,824	585	830	20,140	36,434
Disposals	(2,224)	(3,843)	(643)	(607)	(2,315)	(11,762)	(21,394)
Transfers	21,929	(17)	(19)	196	994	(23,083)	–
Transfers to investment properties	(3,714)	–	–	–	–	(267)	(3,981)
Revaluation	(9,365)	–	–	–	–	–	(9,365)
Currency translation adjustment	2,209	2,829	640	276	151	1,649	7,754
31 December 2010	**150,516**	**100,559**	**42,183**	**8,341**	**7,530**	**42,766**	**351,895**
Accumulated impairment							
31 December 2009	**3,435**	**262**	**200**	**14**	**–**	**–**	**3,911**
Impairment charge	435	–	–	–	–	–	435
Disposals	(1,648)	–	(82)	–	–	–	(1,730)
31 December 2010	**2,222**	**262**	**118**	**14**	**–**	**–**	**2,616**
Accumulated depreciation							
31 December 2009	**4,463**	**23,870**	**16,173**	**3,680**	**2,925**	**–**	**51,111**
Depreciation charge	3,891	11,510	6,048	1,715	1,346	–	24,510
Currency translation difference	103	31	6	19	–	–	159
Disposals	(322)	(3,219)	(326)	(227)	(1,753)	–	(5,847)
Revaluation	(6,506)	–	–	–	–	–	(6,506)
31 December 2010	**1,629**	**32,192**	**21,901**	**5,187**	**2,518**	**–**	**63,427**
Net book value:							
31 December 2009	**129,807**	**65,950**	**18,380**	**3,928**	**4,945**	**55,719**	**278,729**
31 December 2010	**146,665**	**68,105**	**20,164**	**3,140**	**5,012**	**42,766**	**285,852**

The movements in property and equipment during the year ended 31 December 2009 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2008	**147,030**	**76,603**	**36,500**	**7,825**	**8,466**	**58,550**	**334,974**
Acquisition through business combinations (Note 5)	–	22	–	33	–	–	55
Additions	2,025	12,813	1,609	821	593	5,566	23,427
Disposals	(4,638)	(350)	(3,426)	(1,084)	(1,896)	(173)	(11,567)
Transfers	588	503	222	49	653	(2,015)	–
Transfers to investment properties	–	–	–	–	–	(6,387)	(6,387)
Revaluation	(3,205)	–	–	–	–	–	(3,205)
Currency translation adjustment	(4,095)	491	(152)	(22)	54	178	(3,546)
31 December 2009	**137,705**	**90,082**	**34,753**	**7,622**	**7,870**	**55,719**	**333,751**
Accumulated impairment							
31 December 2008	**625**	**1**	**84**	**1**	**–**	**–**	**711**
Impairment charge	2,810	261	116	13	–	–	3,200
31 December 2009	**3,435**	**262**	**200**	**14**	**–**	**–**	**3,911**
Accumulated depreciation							
31 December 2008	**1,049**	**14,168**	**11,867**	**2,593**	**2,802**	**–**	**32,479**
Depreciation charge	3,380	10,257	5,579	1,681	1,619	–	22,516
Currency translation difference	280	26	20	15	4	–	345
Disposals	–	(163)	(811)	(392)	(1,500)	–	(2,866)
Revaluation	(246)	(418)	(482)	(217)	–	–	(1,363)
31 December 2009	**4,463**	**23,870**	**16,173**	**3,680**	**2,925**	**–**	**51,111**
Net book value:							
31 December 2008	**145,356**	**62,434**	**24,549**	**5,231**	**5,664**	**58,550**	**301,784**
31 December 2009	**129,807**	**65,950**	**18,380**	**3,928**	**4,945**	**55,719**	**278,729**

(Thousands of Georgian Lari)

14. Property and Equipment (continued)

The Group engaged, an independent appraiser, to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Bank's buildings was 31 December 2010. No significant changes of the value of buildings took place during the year ended 31 December 2011. If the buildings were measured using the cost model, the carrying amounts of the buildings as at 31 December 2011, 31 December 2010 and 31 December 2009 would be as follows:

	2011	*2010*	*2009*
Cost	164,151	79,800	60,797
Accumulated depreciation and impairment	(8,012)	(7,550)	(10,487)
Net carrying amount	**156,139**	**72,250**	**50,310**

15. Intangible Assets

Movements in goodwill and intangible assets during the year ended 31 December 2011 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total other intangible assets*	*Total*
Cost					
31 December 2010	**142,284**	**2,530**	**30,736**	**33,266**	**175,550**
Acquisition through business combinations (Note 5)	377	–	–	–	377
Additions	–	–	6,443	6,443	6,443
Disposals	–	–	(288)	(288)	(288)
Disposals through sale of subsidiaries	(68,016)	(1,688)	(982)	(2,670)	(70,686)
Effect of hyperinflation	–	–	197	197	197
Currency translation difference	–	–	(1,468)	(1,468)	(1,468)
31 December 2011	**74,645**	**842**	**34,638**	**35,480**	**110,125**
Accumulated amortization and impairment					
31 December 2010	**73,072**	**–**	**10,876**	**10,876**	**83,948**
Amortization charge	–	–	3,661	3,661	3,661
Impairment charge	23,394	–	–	–	23,394
Disposals	–	–	(61)	(61)	(61)
Disposals through sale of subsidiaries	(68,016)	–	(233)	(233)	(68,249)
Effect of hyperinflation	–	–	84	84	84
Currency translation difference	–	–	(69)	(69)	(69)
31 December 2011	**28,450**	**–**	**14,258**	**14258**	**42,708**
Net book value:					
31 December 2010	69,212	2,530	19,860	22,390	91,602
31 December 2011	46,195	842	20,380	21,222	67,417

Impairment charge of goodwill in 2011 completely comprises JSC Belarusky Narodny Bank – GEL 23,394. The main reason for impairment was insufficient future operating cash flows expected to be received per forecasts of the respective cash generating units.

(Thousands of Georgian Lari)

15. Intangible Assets (continued)

Movements in goodwill and intangible assets during the year ended 31 December 2010 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total other intangible assets*	*Total*
Cost					
31 December 2009	**138,849**	**2,530**	**24,681**	**27,211**	**166,060**
Acquisition through business combinations (Note 5)	3,435	–	8	8	3,443
Additions	–	–	5,405	5,405	5,405
Disposals	–	–	(296)	(296)	(296)
Currency translation difference	–	–	938	938	938
31 December 2010	**142,284**	**2,530**	**30,736**	**33,266**	**175,550**
Accumulated amortization and impairment					
31 December 2009	**73,072**	**–**	**7,546**	**7,546**	**80,618**
Amortization charge	–	–	3,453	3,453	3,453
Disposals	–	–	(117)	(117)	(117)
Currency translation difference	–	–	(6)	(6)	(6)
31 December 2010	**73,072**	**–**	**10,876**	**10,876**	**83,948**
Net book value:					
31 December 2009	**65,777**	**2,530**	**17,135**	**19,665**	**85,442**
31 December 2010	**69,212**	**2,530**	**19,860**	**22,390**	**91,602**

Movements in goodwill and intangible assets during the year ended 31 December 2009 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total other intangible assets*	*Total*
Cost					
31 December 2008	**134,238**	**2,499**	**20,791**	**23,290**	**157,528**
Acquisition through business combinations (Note 5)	5,015	–	–	–	5,015
Additions	–	33	4,468	4,501	4,501
Disposals	(411)	–	(577)	(577)	(988)
Currency translation difference	7	(2)	(1)	(3)	4
31 December 2009	**138,849**	**2,530**	**24,681**	**27,211**	**166,060**
Accumulated amortization and impairment					
31 December 2008	**–**	**–**	**5,069**	**5,069**	**5,069**
Amortization charge	–	–	2,912	2,912	2,912
Charge for impairment	73,072	–	–	–	73,072
Disposals	–	–	(404)	(404)	(404)
Currency translation difference	–	–	(31)	(31)	(31)
31 December 2009	**73,072**	**–**	**7,546**	**7,546**	**80,618**
Net book value:					
31 December 2008	**134,238**	**2,499**	**15,722**	**18,221**	**152,459**
31 December 2009	**65,777**	**2,530**	**17,135**	**19,665**	**85,442**

(Thousands of Georgian Lari)

15. Intangible Assets (continued)

Impairment charge of goodwill in 2009 comprise: JSC BG Bank – GEL 68,016, SB Iberia – GEL 3,907, SB Iberia 2 – GEL 744, JSC United Securities Registrar of Georgia – GEL 366 and JSC Intertour – GEL 39. In all of these instances, the main reason for impairment was insufficient future operating cash flows expected to be received per forecasts of the respective cash generating units.

As at 31 December 2011 goodwill acquired through business combinations was originated from the following legal entities of the Group and have been further allocated to the proper cash generating units:

- JSC Bank of Georgia
- JSC Belarusky Narodny Bank
- JSC Insurance Company Aldagi – BCI
- JSC My Family Clinic
- JSC Intertour
- Planeta Forte, LLC

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will have a zero constant growth rate after the budgeted period and the cash flows will be stable. The discount rate applied to cash flow projections is the weighted average cost of capital ("WACC") of each particular cash-generating unit.

Carrying amount of goodwill (less impairment) was originated from the following legal entities of the Group:

		WACC applied for impairment			*Carrying amount of goodwill*		
	Effective annual growth rate in three-year financial budgets	***2011***	***2010***	***2009***	***2011***	***2010***	***2009***
JSC Bank of Georgia	31%	8.50%	8.82%	8.70%	22,398	22,398	22,398
JSC Insurance Company Aldagi – BCI	20%	13.30%	12.61%	17.20%	18,742	18,742	18,742
JSC Teliani Valley	37%	15.70%	14.56%	N/A	3,292	3,292	–
JSC Intertour	20%	14.96%	14.96%	14.08%	659	659	659
Insurance Company Partner, LLC	20%	13.30%	–	–	377	–	–
Planeta Forte, LLC	20%	2.78%	2.78%	17.20%	364	364	364
JSC My Family Clinic	20%	13.30%	12.61%	17.20%	220	220	220
Teliani Trading (Ukraine), LLC	37%	15.70%	14.56%	N/A	143	143	–
JSC Belarusky Narodny Bank	20%	13.70%	8.51%	16.26%	–	23,394	23,394
Total					**46,195**	**69,212**	**65,777**

The three-year effective growth rate indicated in the table above represents the effective average annual growth rate that is embedded into the respective three-year financial budget of the respective entity, as approved by its management, calculated individually per each respective entity. Third year operating cash flows were taken at perpetuity and zero growth-rate was applied beyond the third year.

Goodwill amount that arose from JSC Intellect Bank and JSC Tbiluniversal Bank acquisition is allocated to JSC Bank of Georgia, mainly due to the fact that JSC Bank of Georgia has utilized the assets and liabilities of the said financial institutions.

Impairment testing of goodwill and other intangible assets with indefinite lives

Goodwill acquired through business combinations with indefinite lives have been allocated to four individual cash-generating units, which are also reportable segments, for impairment testing: corporate banking, retail banking, insurance and asset & wealth management and brokerage.

(Thousands of Georgian Lari)

15. Intangible Assets (continued)

Impairment testing of goodwill and other intangible assets with indefinite lives (continued)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2011	*2010*	*2009*
Insurance & Healthcare	19,339	18,962	18,962
Retail banking	12,433	12,433	14,708
Corporate banking	9,965	9,965	7,690
Liberty Consumer	4,458	4,458	1,023
BNB & BGB	–	23,394	23,394
Total	**46,195**	**69,212**	**65,777**

Key assumptions used in value in use calculations

The recoverable amounts of the cash generating units have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets.

The following rates are used by the Bank for corporate banking and retail banking:

	Corporate Banking			*Retail Banking*		
	2011, %	*2010, %*	*2009, %*	*2011, %*	*2010, %*	*2009, %*
Discount rate	8.5%	8.9%	9.1%	8.5%	8.9%	8.8%

The following rates are used by the Bank for Insurance and Brokerage and Asset & Wealth Management:

	Insurance & Healthcare			*Liberty Consumer*		
	2011, %	*2010, %*	*2009, %*	*2011, %*	*2010, %*	*2009, %*
Discount rate	13.3%	12.6%	17.2%	14.5%	14.5%	16.45%

The following rates are used by the Bank for BNB & BGB:

	BNB & BGB		
	2011, %	*2010, %*	*2009, %*
Discount rate	8.5%	8.9%	9.0%

The calculation of value-in-use for both Asset Management and Retail Banking units is most sensitive to interest margins and discount rates assumptions:

Discount rates

Discount rates reflect management's estimate of return of capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using WACC.

(Thousands of Georgian Lari)

16. Taxation

The corporate income tax benefit (expense) comprises:

	2011	*2010*	*2009*
Current income tax benefit (expense)	4,985	(12,365)	(1,872)
Deferred income tax benefit (expense)	(2,923)	(3,411)	8,870
Income tax benefit (expense)	**2,062**	**(15,776)**	**6,998**
Income tax (expense) benefit attributable to continuing operations	**(21,125)**	**(15,776)**	**6,998**
Income tax benefit attributable to a discontinued operation (Note 29)	**23,187**	**–**	**–**
Deferred income tax benefit (expense) from continuing operations in other comprehensive (loss) income	5,581	206	(704)
Deferred income tax benefit from discontinued operations in other comprehensive income (Note 29)	625	–	–
Total deferred income tax benefit (expense) recognized in other comprehensive income	**6,206**	**206**	**(704)**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2011, 2010 and 2009 is as follows:

	2011	*2010*	*2009*
Currency translation differences	6,175	–	–
Net losses on investment securities available for sale	124	146	(620)
Revaluation of buildings	(93)	(58)	124
Other	–	118	(208)
Income tax benefit (expense) to other comprehensive income	**6,206**	**206**	**(704)**

The income tax rate applicable to the majority of the Group's income is the income tax rate applicable to subsidiaries income which ranges from 15% to 23% (2010: from 15% to 26%, 2009: from 15% to 26%). Reconciliation between the expected and the actual taxation charge is provided below.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2011, 31 December 2010 and 31 December 2009 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

(Thousands of Georgian Lari)

16. Taxation (continued)

	2011	*2010*	*2009*
Profit (loss) before income tax benefit (expense) from continuing operations	172,054	98,443	(105,906)
Net loss before income tax benefit from discontinued operations (Note 29)	(38,406)	–	–
Profit (loss) before income tax benefit (expense)	**133,648**	**98,443**	**(105,906)**
Statutory tax rate	15%	15%	15%
Theoretical income tax (expense) benefit at statutory tax rate	**(20,047)**	**(14,766)**	**15,886**
Tax at the domestic rates applicable to profits in the respective country	(2,050)	(291)	3,614
Correction of prior year declarations	8,408	–	–
Loss on disposal of subsidiary *	18,593	–	–
Other operating income	–	229	408
State securities at lower tax rates	–	564	677
Non-deductible expenses:			
– Impairment of goodwill	(3,509)	–	(10,308)
– Share-based compensation expenses	–	(1,325)	(717)
– Business trips	–	(288)	–
– Entertainment	–	(71)	–
– Charity	–	(10)	–
– Other impairment recoveries	–	–	(2,460)
– Other	667	182	(102)
Income tax benefit (expense)	**2,062**	**(15,776)**	**6,998**
Income tax (expense) benefit attributable to continuing operations	(21,125)	(15,776)	6,998
Income tax benefit attributable to a discontinued operation (Note 29)	23,187	–	–
Income tax benefit (expense)	**2,062**	**(15,776)**	**6,998**

**** This is loss recognised in tax declaration of 2011 from disposal of PJSC Bank Pershyi (formerly known as JSC BG Bank).***

Correction of prior year declarations are fully attributable to Georgia and it includes GEL 3,315 of the corporate income tax benefit for the prior years, recognized in 2011, based on the new tax ruling obtained from the Tax Authorities in Georgia regarding the updated treatment of the deductibility of the share-based compensation expense before taxable profit.

Applicable taxes in Georgia, Ukraine and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia, Ukraine and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

As at 31 December 2011, 31 December 2010 and 31 December 2009 tax assets and liabilities consist of the following:

	2011	*2010*	*2009*
Current income tax assets	8,487	2,247	7,997
Deferred income tax assets	14,852	18,178	15,487
Income tax assets	**23,339**	**20,425**	**23,484**
Current income tax liabilities	1,174	4,251	574
Deferred income tax liabilities	36,242	30,901	24,661
Income tax liabilities	**37,416**	**35,152**	**25,235**

(Thousands of Georgian Lari)

16. Taxation (continued)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years follows:

		Origination and reversal of temporary differences				Origination and reversal of temporary differences				Origination and reversal of temporary differences				
	2008	*In the income statement*	*In other compre-hensive income*	*Effect of business combi-nation*	*2009*	*In the income statement*	*In other compre-hensive income*	*Effect of business combi-nation*	*2010*	*In the income statement*	*In other compre-hensive income*	*Effect of business comb-nation*	*Disposal of subsidiary*	*2011*
Tax effect of deductible temporary differences:														
Amounts due to credit institutions	–	–	–	–	–	–	–	–	–	1,264	–	–	–	1,264
Investment securities: available-for-sale	1,826	(295)	(620)	–	911	20	279	–	1,210	(988)	522	–	(7)	737
Loans to customers	470	9,659	–	–	10,129	440	–	–	10,569	(345)	(36)	–	(10,188)	–
Allowance for loan impairment	–	–	–	–	–	–	–	–	–	18	(9)	–	–	9
Amounts due to customers	–	–	–	–	–	–	–	–	–	26	(13)	–	–	13
Other insurance liabilities & pension fund obligations	–	–	–	–	–	–	–	–	–	275	176	–	–	451
Investment properties	–	–	–	1,604	1,604	349	–	–	1,953	(12)	(1,604)	–	(337)	–
Reinsurance assets	243	129	–	–	372	(117)	–	–	255	–	(27)	–	–	228
Insurance premiums receivables	2,073	(376)	–	–	1,697	–	–	–	1,697	–	–	–	–	1,697
Allowances for impairment and provisions for other losses	465	732	–	–	1,197	867	–	–	2,064	–	(722)	–	–	1,342
Tax losses carried forward	18,002	1,516	(26)	–	19,492	(15,020)	–	–	4,472	3,714	5,181	–	(1,035)	12,332
Finance lease receivables	284	35	–	–	319	–	–	–	319	23	(35)	–	–	307
Intangible assets	239	25	–	–	264	24	–	–	288	28	(135)	–	–	181
Property and equipment	1,783	149	289	–	2,221	(20)	290	78	2,569	(33)	(358)	–	–	2,178
Other assets	463	359	–	–	822	147	34	–	1,003	81	(103)	–	(13)	968
Other liabilities	735	1,190	–	–	1,925	(698)	–	–	1,227	604	(83)	–	(218)	1,530
Gross deferred tax assets	**26,583**	**13,123**	**(357)**	**1,604**	**40,953**	**(14,008)**	**603**	**78**	**27,626**	**4,655**	**2,754**	**–**	**(11,798)**	**23,237**
Unrecognized deferred tax assets	–	–	(131)	–	(131)	131	–	–	–	–	–	–	–	–
Deferred tax assets	**26,583**	**13,123**	**(488)**	**1,604**	**40,822**	**(13,877)**	**603**	**78**	**27,626**	**4655**	**2754**	**–**	**(11,798)**	**23,237**
Tax effect of taxable temporary differences:														
Fair value measurement of securities	–	–	–	–	–	203	–	–	203	–	(203)	–	–	–
Amounts due to credit institutions	2,051	(317)	–	–	1,734	39	–	–	1,773	(8)	–	–	(31)	1,734
Amounts due to customers	508	–	–	–	508	1,078	(119)	–	1,467	(7)	(8)	–	(942)	510
Securities available-for-sale	182	–	–	–	182	249	133	–	564	(1,157)	593	–	–	–
Loans to customers	7,103	13,776	–	–	20,879	(10,314)	–	–	10,565	(1,452)	(91)	–	–	9,022
Allowance for loan impairment	–	–	–	–	–	–	–	–	–	622	(307)	–	–	315
Reinsurance assets	27	–	–	–	27	13	–	–	40	–	(27)	–	–	13
Finance lease receivables	–	–	–	–	–	–	–	–	–	9	(4)	–	–	5
Allowances for impairment and provisions for other losses	1,223	(1,223)	–	–	–	770	–	–	770	(13)	(602)	–	–	155
Other insurance liabilities & pension fund obligations	–	–	–	–	–	7	–	–	7	218	179	–	–	404
Property and equipment	28,480	(6,194)	165	–	22,451	(3,756)	348	379	19,422	6,474	(957)	1,167	57	26,163
Investment properties	2,861	(2,313)	–	–	548	20	–	–	568	1,697	(1,650)	–	–	615
Intangible assets	2,297	87	28	–	2,412	1,364	–	–	3,776	814	(175)	–	(99)	4,316
Other assets	341	399	23	20	783	(677)	35	–	141	1,163	(256)	–	–	1,048
Other liabilities	434	38	–	–	472	538	–	43	1,053	(782)	56	–	–	327
Deferred tax liabilities	**45,507**	**4,253**	**216**	**20**	**49,996**	**(10,466)**	**397**	**422**	**40,349**	**7,578**	**(3,452)**	**1,167**	**(1,015)**	**44,627**
Net deferred tax assets (liabilities)	**(18,924)**	**8,870**	**(704)**	**1,584**	**(9,174)**	**(3,411)**	**206**	**(344)**	**(12,723)**	**(2,923)**	**6,206**	**(1,167)**	**(10,783)**	**(21,390)**

(Thousands of Georgian Lari)

17. Other Impairment Allowance and Provisions

	Impairment allowance for investments in associates	*Impairment allowance for other assets*	*Impairment allowance for available-for-sale investment securities*	*Provision for guarantees and commitments*	*Total*
31 December 2008	**274**	**549**	**–**	**4,263**	**5,086**
Charge (reversal)	2,237	5,513	818	(2,137)	6,431
Write-offs	–	(342)	–	–	(342)
31 December 2009	**2,511**	**5,720**	**818**	**2,126**	**11,175**
Charge (reversal)	1,495	(2,130)	1,941	2,281	3,587
Write-offs	(1,768)	(345)	(777)	–	(2,890)
Recoveries	–	64	–	–	64
31 December 2010	**2,238**	**3,309**	**1,982**	**4,407**	**11,936**
Charge (reversal)	–	2,684	–	(4,021)	(1,337)
Impairment of receivables from discontinued operations (Note 29)	–	3,730	–	–	3,730
Write-offs	(1,730)	(2,086)	(1,982)	–	(5,798)
Currency translation difference	–	(135)	–	–	(135)
31 December 2011	**508**	**7,502**	**–**	**386**	**8,396**

Impairment of receivables from discontinued operations constitutes a partial impairment of the receivables remaining from the sale of 80% equity interest in JSC BG Bank, currently known as PJSC Bank Pershyi.

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

18. Other Assets and Other Liabilities

Other assets comprise:

	2011	*2010*	*2009*
Derivative financial assets	36,823	2,933	1,129
Inventory	27,903	9,828	1,212
Accounts receivable	24,126	17,093	4,026
Insurance premiums receivable	24,052	21,413	20,619
Reinsurance assets	8,859	7,307	4,920
Receivables from money transfers	4,937	3,358	2,508
Operating taxes receivables	4,683	1,793	1,296
Settlements on operations with securities	1,972	5,182	3,027
Assets purchased for finance lease purposes	1,877	1,434	2,316
Trading securities owned	1,115	1,218	2,268
Receivable from documentary operations	1,026	1,338	4,338
Receivables from sale of assets	663	797	1,420
Operating lease receivables	309	266	426
Foreclosed assets	169	1,049	946
Prepayments for purchase of property and equipment	–	959	344
Assets held-for-sale	–	314	–
Other	6,556	2,447	3,205
	145,070	**78,729**	**54,000**
Less – Allowance for impairment of other assets (Note 17)	(7,502)	(3,309)	(5,720)
Other assets	**137,568**	**75,420**	**48,280**

(Thousands of Georgian Lari)

18. Other Assets and Other Liabilities (continued)

Other liabilities comprise:

	2011	*2010*	*2009*
Accruals for employee compensation	40,825	25,111	21,860
Accounts payable	35,025	2,617	6,269
Insurance contracts liabilities	35,009	32,695	30,304
Derivative financial liabilities	15,856	17,525	7,460
Accruals and deferred income	8,915	3,268	35
Other insurance liabilities	8,534	4,431	6,152
Pension benefit obligations	6,353	4,949	3,856
Other taxes payable	2,777	2,418	2,862
Creditors	1,751	8,412	4,226
Dividends payable	359	303	314
Amounts payable for share acquisitions	1	259	254
Amounts payable for purchase of intangible assets	–	9	78
Other	3,057	4,790	2,236
Other liabilities	**158,462**	**106,787**	**85,906**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2011		
	Notional amount	*Fair value Asset*	*Fair value Liability*
Interest rate contracts			
Forwards and Swaps – foreign	263,309	–	9,542
Foreign exchange contracts			
Forwards and Swaps – domestic	97,781	275	196
Forwards and Swaps – foreign	255,348	35,850	5,791
Equity / Commodity contracts			
Call options – foreign	5,010	698	–
Embedded derivatives from investment deposits	–	–	327
Total derivative assets / liabilities	**621,448**	**36,823**	**15,856**

	2010			*2009*		
	Notional amount	*Fair value Asset*	*Fair value Liability*	*Notional amount*	*Fair value Asset*	*Fair value Liability*
Interest rate contracts						
Forwards and Swaps – foreign	338,369	–	14,527	332,108	–	6,447
Foreign exchange contracts						
Forwards and Swaps – domestic	66,058	777	597	24,410	–	288
Options – foreign	54,121	1,815	2,211	1,096	82	–
Equity / Commodity contracts						
Call options – foreign	3,014	341	–	8,429	1,047	–
Embedded derivatives from investment deposits	–	–	190	–	–	725
Total derivative assets / liabilities	**461,562**	**2,933**	**17,525**	**366,043**	**1,129**	**7,460**

(Thousands of Georgian Lari)

19. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2011	*2010*	*2009*
Borrowings from international credit institutions	863,004	1,003,926	913,579
Time deposits and inter-bank loans	42,837	130,284	12,761
Sub-total	**905,841**	**1,134,210**	**926,340**
Correspondent accounts	15,331	4,717	2,275
Amounts due to credit institutions	**921,172**	**1,138,927**	**928,615**

During the year ended 31 December 2011 the Group received short-term funds from Georgian banks in different currencies. As at 31 December 2011 the Group had an equivalent of GEL 2,548 (2010: GEL 13,030, 2009: GEL 1,566) in foreign currencies received as deposits from Georgian banks. During the year ended 31 December 2011 the Group paid up to 4.0% interest on these deposits (2010: 4.0%, 2009: 0.2%).

Borrowings from international credit institutions, time deposits and inter-bank loans were comprised of:

As at 31 December 2011

Credit institution	*Grant date*	*Contractual maturity*	*Currency*	*Facility amount in original currency*	*Outstanding Balance as at 31 December 2011 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	55,507	95,954
Asian Development Bank	1-Dec-10	1-Dec-15	USD	50,000	83,101
Merrill Lynch International **	17-Aug-07	17-Aug-12	USD	35,000	60,654
European Bank for Reconstructions and Development	13-Jan-09	15-Jan-14	USD	50,000	59,939
International Finance Corporation	13-Jan-09	15-Jul-13	USD	50,000	56,190
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	30,000	49,862
Netherland Development Finance Company **	18-Jul-08	15-Oct-18	USD	30,000	49,690
European Bank for Reconstructions and Development **	13-Jan-09	15-Jan-19	USD	26,044	41,912
International Finance Corporation **	13-Jan-09	15-Jan-19	USD	26,044	41,907
International Financial Corporatation **	13-Jan-09	15-Jan-19	USD	23,956	40,832
European Bank for Reconstructions and Development**	13-Jan-09	15-Jan-19	USD	23,956	40,779
Overseas Private Investment Corporation	23-Dec-08	20-Dec-18	USD	29,000	37,319
European Bank for Reconstructions and Development	12-Nov-10	5-Dec-15	USD	20,000	33,328
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	20,000	33,243
Semper Augustos B.V. **	31-Oct-07	30-Oct-17	USD	15,000	25,565
European Bank for Reconstructions and Development	8-Dec-11	8-Dec-16	GEL	24,020	23,927
Overseas Private Investment Corporation **	23-Dec-08	20-Dec-18	USD	10,000	16,491
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	12,500	9,200
JSC HSBC Bank Georgia	30-Dec-11	5-Jan-12	GEL	9,000	9,001
International Finance Corporation	21-Oct-10	15-Dec-14	USD	5,000	8,339
ING Bank N.V.	9-Nov-11	1-Jan-20	USD	11,906	6,961
World Business Capital	17-Feb-06	25-Dec-15	USD	10,000	6,740
Baltikums Bank AS	12-Dec-11	12-Jan-12	EUR	3,000	6,493
European Bank for Reconstructions and Development	20-Jun-11	25-Jul-16	USD	20,000	6,334
World Business Capital	29-May-07	25-Mar-17	USD	3,130	5,228
JSC Procredit Bank	29-Dec-11	31-Jan-12	GEL	5,000	5,001
Balances less than GEL 5,000	various	various	various	various	51,851
Total					**905,841**

(Thousands of Georgian Lari)

19. Amounts Due to Credit Institutions (continued)

As at 31 December 2010

Credit institution	*Grant date*	*Contractual maturity*	*Currency*	*Facility amount in original currency*	*Outstanding Balance as at 31 December 2010 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	200,000	270,880
International Finance Corporation	13-Jan-09	15-Jul-13	USD	50,000	89,015
European Bank for Reconstructions and Development	13-Jan-09	15-Jan-14	USD	50,000	88,258
National Bank of Georgia	30-Dec-10	6-Jan-11	GEL	66,300	66,300
Merrill Lynch International **	17-Aug-07	17-Aug-12	USD	35,000	62,476
Netherland Development Finance Company **	18-Jul-08	15-Oct-18	USD	30,000	52,916
Overseas Private Investment Corporation	23-Dec-08	20-Dec-18	USD	29,000	45,209
Asian Development Bank	1-Dec-10	1-Dec-15	USD	50,000	43,566
European Bank for Reconstructions and Development**	13-Jan-09	15-Jan-19	USD	23,956	43,402
International Financial Corporatation **	13-Jan-09	15-Jan-19	USD	23,956	43,396
International Finance Corporation **	13-Jan-09	15-Jan-19	USD	26,044	42,796
European Bank for Reconstructions and Development **	13-Jan-09	15-Jan-19	USD	26,044	42,708
European Bank for Reconstructions and Development	12-Nov-10	5-Dec-15	USD	20,000	35,272
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	30,000	35,016
Semper Augustos B.V. **	31-Oct-07	30-Oct-17	USD	15,000	27,134
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	20,000	24,529
Overseas Private Investment Corporation **	23-Dec-08	20-Dec-18	USD	10,000	17,477
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	12,500	13,502
International Finance Corporation	21-Oct-10	15-Dec-14	USD	5,000	8,774
World Business Capital	17-Feb-06	25-Dec-15	USD	10,000	8,699
JSC Cartu Bank	23-Dec-10	6-Jan-11	GEL	7,500	7,512
JSC HSBC Bank Georgia	15-Nov-10	15-Feb-11	USD	4,000	7,112
OJSC Pasha Bank	8-Nov-10	8-Feb-11	EUR	3,000	7,050
World Business Capital	29-May-07	25-Mar-17	USD	4,151	6,441
JSC International Bank of Azerbaijan - Georgia	31-Dec-10	3-Jan-11	GEL	6,400	6,400
JSC BTA Bank	10-Nov-10	22-Feb-11	USD	3,000	5,335
UAB Medicinos Bankas	12-Nov-10	11-Feb-11	USD	3,000	5,335
Balances less than GEL 5,000	various	various	various	various	27,700
Total					**1,134,210**

(Thousands of Georgian Lari)

19. Amounts Due to Credit Institutions (continued)

As at 31 December 2009 *Credit institution*	*Grant date*	*Contractual maturity*	*Currency*	*Facility amount in original currency*	*Outstanding Balance as at 31 December 2009 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	200,000	303,164
International Finance Corporation	13-Jan-09	15-Jul-13	USD	50,000	85,979
European Bank for Reconstructions and Development	13-Jan-09	15-Jan-14	USD	50,000	85,920
Merrill Lynch International **	17-Aug-07	17-Aug-12	USD	35,000	59,472
Netherland Development Finance Company **	18-Jul-08	15-Oct-18	USD	30,000	49,570
Overseas Private Investment Corporation	23-Dec-08	19-Dec-18	USD	29,000	48,602
European Bank for Reconstructions and Development**	13-Jan-09	15-Jan-19	USD	23,956	42,365
International Financial Corporatation **	13-Jan-09	15-Jan-19	USD	23,956	42,344
European Bank for Reconstructions and Development **	13-Jan-09	15-Jan-19	USD	26,044	40,700
International Finance Corporation **	13-Jan-09	15-Jan-19	USD	26,044	40,694
Semper Augustos B.V. **	31-Oct-07	25-Oct-17	USD	15,000	25,803
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	12,500	17,029
Overseas Private Investment Corporation **	23-Dec-08	19-Dec-18	USD	10,000	16,844
Citibank International PLC	17-Aug-07	20-Feb-10	USD	8,333	14,157
Citibank International PLC	17-Aug-07	20-Aug-10	USD	8,333	14,000
World Business Capital	17-Feb-06	1-Oct-16	USD	10,000	9,705
World Business Capital	29-May-07	25-Mar-17	USD	4,151	6,998
Commerzbank AG	30-Dec-05	30-Dec-10	USD	3,837	6,172
Balances less than GEL 5,000	various	various	various	various	16,822
Total					**926,340**

*** - includes accrued interest**
**** - total subordinated loans comprised GEL 317,830 as at 31 December 2011 (2010: GEL 332,305, 2009: GEL 317,792)**

During the years ended 2011, 2010 and 2009 the Group paid up to 11.65% on borrowings from international credit institutions.

Agreements for significant borrowings contain certain covenants requiring the Group for different limits for capital adequacy, liquidity, currency position, credit exposures, leverage and others. At 31 December 2011, 31 December 2010 and 31 December 2009 the Group complied with all the financial covenants of the loans received from credit institutions.

The borrowings received on 13 January 2009 from the European Bank for Reconstructions and Development and International Finance Corporation, comprising USD 26,044 thousand each, had a convertibility feature valid for 5 years from the loan granting date (convertibility period). Number of estimated potential shares to be issued under these convertible facilities comprises 3,635,006 ordinary shares as at 31 December 2011 (Note 21, 31 December 2010: 3,474,614) of the Bank.

20. Amounts Due to Customers

The amounts due to customers include the following:

	2011	*2010*	*2009*
Current accounts	1,206,750	864,327	559,987
Time deposits	1,347,334	1,140,371	712,483
Promissory notes issued	181,138	21,610	660
Amounts due to customers	**2,735,222**	**2,026,308**	**1,273,130**
Held as security against letters of credit and guarantees (Note 22)	**24,353**	**20,336**	**56,758**

(Thousands of Georgian Lari)

20. Amounts Due to Customers (continued)

As at 31 December 2011, 31 December 2010 and 31 December 2009, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. Average effective maturity of the notes comprises 5 months (2010: 10 months, 2009: 9 months).

At 31 December 2011, amounts due to customers of GEL 580,710 (21%) were due to the 10 largest customers (2010: GEL 363,420 (18%), 2009: 217,264 (17%)).

Amounts due to customers include accounts with the following types of customers:

	2011	*2010*	*2009*
Private enterprises	1,290,908	964,150	579,509
Individuals	1,056,852	894,312	637,789
State and budget organizations	387,462	167,846	55,832
Amounts due to customers	**2,735,222**	**2,026,308**	**1,273,130**

The breakdown of customer accounts by industry sector is as follows:

	2011	*2010*	*2009*
Individuals	1,056,852	894,312	637,789
Trade and services	655,551	421,138	273,850
State and budget organizations	387,462	167,846	55,832
Energy	239,797	256,275	116,810
Construction and development	175,906	93,827	79,082
Mining and processing	131,734	113,283	27,638
Transport and communication	36,871	35,226	47,166
Agriculture	14,844	21,379	13,588
Other	36,205	23,022	21,375
Amounts due to customers	**2,735,222**	**2,026,308**	**1,273,130**

21. Equity

Share capital

As at 31 December 2011, authorized share capital comprised 43,308,125 common shares, of which 32,877,860 were issued and fully paid (2010: 43,308,125 common shares, of which 31,344,860 were issued and fully paid, 2009: 43,308,125 common shares, of which 31,306,071 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2011 are described below:

	Number of shares Ordinary	***Amount of shares Ordinary***
31 December 2008	**31,253,283**	**31,253**
Increase in share capital arising from share-based payments (Note 30)	52,788	53
31 December 2009	**31,306,071**	**31,306**
Increase in share capital arising from share-based payments (Note 30)	38,789	39
31 December 2010	**31,344,860**	**31,345**
Increase in share capital arising from issuance of GDRs (Note 30)	1,500,000	1,500
Increase in share capital arising from share-based payments (Note 30)	32,687	33
31 December 2011	**32,877,547**	**32,878**

(Thousands of Georgian Lari)

21. Equity (continued)

Share capital (continued)

Share capital of the Group was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. The 3,635,006 potential shares underlying the convertible debt instruments held by the Group as at 31 December 2011 (Note 19, 31 December 2010: 3,474,614) were treated as dilutive, because their conversion would decrease earnings per share from continuing operations, as prescribed in IAS 33 – "Earnings per share". This conversion would also reduce the Group's interest expenses on these debt instruments and increase the year ended 31 December 2011 total profit attributable to ordinary shareholders of the Bank. Below is the summary of the earnings per share calculation:

	2011	*2010*	*2009*
Basic earnings per share			
Profit (loss) for the year attributable to ordinary shareholders of the Bank	132,531	83,640	(91,370)
Profit (loss) for the year from continuing operations attributable to ordinary shareholders of the Bank	147,750	83,640	(91,370)
Weighted average number of ordinary shares outstanding during the year	29,866,366	30,037,041	30,494,397
Basic earnings per share	4.4375	2.7846	(2.9963)
Basic earnings per share from continuing operations	4.9470	2.7846	(2.9963)
Dilution effect			
Interest expenses on convertible debt instruments, net of tax	8,029	8,143	–
Number of dilutive potential ordinary shares	3,635,006	3,474,614	–
Diluted earnings per share			
Profit (loss) for the year attributable to ordinary shareholders of the Bank	140,560	91,783	(91,370)
Profit (loss) for the year from continuing operations attributable to ordinary shareholders of the Bank	155,779	91,783	(91,370)
Weighted average number of diluted ordinary shares outstanding during the year	33,501,372	33,511,655	30,494,397
Diluted earnings per share	4.1957	2.7388	(2.9963)
Diluted earnings per share from continuing operations	4.6499	2.7388	(2.9963)

Treasury shares

Treasury shares of GEL 1,208 as at 31 December 2011 comprise the Bank's shares owned by the Bank and its subsidiaries (2010: GEL 1,072, 2009: GEL 668). Purchases and sales of treasury shares were conducted by the Bank's subsidiaries in the open market: JSC BG Capital, BG Trading LLC, Galt and Taggart Holdings Limited LLC, GC Holdings LLC and JSC Insurance Company Aldagi BCI.

An increase in share capital of GEL 1,500 was made for future share based compensation purposes and is kept by the Bank's acting trustee. As a result, treasury shares amounting to GEL 1,938 as at 31 December 2011 (2010: GEL 438, 2009: GEL 1,009) are kept by Abacus Corporate Trustee Limited, acting as the trustee of the Bank.

During the year ended 31 December 2011, 32,687 ordinary shares of GEL 33 par value and additional paid-in capital of GEL 620 have been vested as compensation to top management (2010: 38,789 ordinary shares of GEL 39 par value and additional paid-in capital of GEL 523, 2009: 52,788 ordinary shares of GEL 53 par value and additional paid-in capital of GEL 430).

(Thousands of Georgian Lari)

21. Equity (continued)

Dividends

On 15 June 2011, the annual general meeting of shareholders of JSC Bank of Georgia declared 2011 dividends comprising Georgian Lari 0.3 per share, based on 2010 audited financial results. The declaration is effective from 1 July 2011. Payment of the total GEL 9,169 dividends was made on 18 July 2011.

No dividends were declared nor paid during 2010 and 2009.

Nature and purpose of other reserves

Revaluation reserve for property and equipment and investment properties
The revaluation reserve for property and equipment and investment properties is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. The reserve is also used to record increases in the fair value of those investment properties that were reclassified from land or building in prior years and for which the first appreciation was to be recorded in equity.

Nature and purpose of other reserves (continued)

Unrealised gains (losses) on investment securities available-for-sale
This reserve records fair value changes on investments available-for-sale.

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries
This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. Movement of foreign currency translation reserve was as follows:

		Foreign currency translation reserve
31 December 2008		**(16,981)**
Currency translation loss recognised in other comprehensive loss		(12,145)
31 December 2009		**(29,126)**
Currency translation loss recognised in other comprehensive income		5,116
31 December 2010		**(24,010)**
Foreign exchange differences from subsidiary financial statements translation from their functional currencies into the Group's presentation currency	(39,568)	
Loss from translation of non-monetary items from functional currency into presentation currency	(12,925)	
Loss recognized from currency translation differences from continuing operations, recognised in other comprehensive income		(52,493)
Foreign currency gain from discontinued operations (disposal of subsidiary) (Note 29)		26,130
31 December 2011		**(50,373)**

Loss from revaluation of open currency position exposure through investments in subsidiaries is a result of difference between the historical cost of the amount of investment in foreign subsidiary and the total outstanding shareholders equity of the same foreign subsidiary translated into the presentation currency (Georgian Lari) at the exchange rate effective as at the reporting date.

For the years ended 31 December 2011, 31 December 2010 and 31 December 2009, gains (losses) from devaluation of open foreign currency positions mostly comprise losses incurred on depreciation of Belarusian Ruble denominated total shareholders' equity of JSC Belarusky Narodny Bank and depreciation of Ukrainian Hryvnia denominated total shareholders' equity of JSC BG Bank, both against the Georgian Lari.

(Thousands of Georgian Lari)

21. Equity (continued)

Foreign currency gain from disposal of subsidiary (JSC BG Bank) comprises a reclassification of accumulated foreign currency translation differences incurred during prior years, from other comprehensive income statement to the income statement as prescribed by IAS 27.34.

Movements in other reserves during the years ended 31 December 2011, 31 December 2010 and 31 December 2009 are presented in the statements of other comprehensive income.

22. Commitments and Contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Financial commitments and contingencies

As at 31 December 2011, 31 December 2010 and 31 December 2009 the Group's financial commitments and contingencies comprised the following:

	2011	*2010*	*2009*
Credit-related commitments			
Guarantees issued	463,393	374,230	240,613
Undrawn loan facilities	120,339	138,057	76,999
Letters of credit	70,224	58,779	30,038
	653,956	**571,066**	**347,650**
Operating lease commitments			
Not later than 1 year	5,040	7,016	6,281
Later than 1 year but not later than 5 years	9,979	13,984	13,396
Later than 5 years	3,122	6,037	6,497
	18,141	**27,037**	**26,174**
Capital expenditure commitments	**47,918**	**39,523**	**9,309**
Less – Cash held as security against letters of credit and guarantees (Note 20)	(24,353)	(20,336)	(56,758)
Less – Receivables related to letters of credit	(515)	–	–
Less – Provisions (Note 17)	(386)	(4,407)	(2,126)
Financial commitments and contingencies, net	**694,761**	**612,883**	**324,249**

As at 31 December 2011 the capital expenditures represented the commitment for purchase of property and capital repairs of GEL 41,119 and software and other intangible assets of GEL 6,799. As at 31 December 2010 the capital expenditures represented the commitment for purchase of property and capital repairs of GEL 32,311 and software and other intangible assets of GEL 7,212. As at 31 December 2009 the capital expenditures represented the commitment for purchase of property and capital repairs of GEL 1,512 and software and other intangible assets of GEL 7,797.

(Thousands of Georgian Lari)

23. Net Fee and Commission Income

	2011	*2010*	*2009*
Settlements operations	62,015	50,511	33,907
Guarantees and letters of credit	17,528	12,362	10,764
Cash operations	9,048	8,061	6,145
Advisory	1,668	1,129	578
Currency conversion operations	1,507	677	1,024
Brokerage service fees	1,033	545	1,891
Other	742	980	10,290
Fee and commission income	**93,541**	**74,265**	**64,599**
Settlements operations	(12,255)	(7,324)	(4,299)
Cash operations	(2,424)	(780)	(1,619)
Guarantees and letters of credit	(1,856)	(1,164)	(2,106)
Currency conversion operations	(550)	(14)	(28)
Insurance brokerage service fees	(543)	(646)	(534)
Other	(576)	(917)	(988)
Fee and commission expense	**(18,204)**	**(10,845)**	**(9,574)**
Net fee and commission income	**75,337**	**63,420**	**55,025**

24. Net Insurance Revenue

Net insurance premiums earned, net insurance claims incurred and respective net insurance revenue for the years ended 31 December 2011, 31 December 2010 and 31 December 2009 comprised:

	2011	*2010*	*2009*
Life insurance contracts premium written	2,200	2,562	2,865
General insurance contracts premium written	54,241	53,744	56,694
Total premiums written	**56,441**	**56,306**	**59,559**
Gross change in life provision	82	96	(377)
Gross change in general insurance contracts unearned premium provision	135	(1,001)	1,690
Total gross premiums earned on insurance contracts	**56,658**	**55,401**	**60,872**
Reinsurers' share of life insurance contracts premium written	(148)	(1,321)	(1,086)
Reinsurers' share of general insurance contracts premium written	(9,750)	(11,038)	(9,502)
Reinsurers' share of change in life provision	(183)	(57)	254
Reinsurers' share of change in general insurance contracts unearned premium provision	(181)	1,576	(5,061)
Total reinsurers' share of gross earned premiums on insurance contracts	**(10,262)**	**(10,840)**	**(15,395)**
Net insurance premiums earned	**46,396**	**44,561**	**45,477**

(Thousands of Georgian Lari)

24. Net Insurance Revenue (continued)

	2011	*2010*	*2009*
Life insurance claims paid	(465)	(1,272)	(830)
General insurance claims paid	(30,850)	(28,493)	(43,137)
Total insurance claims paid	**(31,315)**	**(29,765)**	**(43,967)**
Reinsurers' share of life insurance claims paid	428	988	523
Reinsurers' share of general insurance claims paid	1,186	1,497	12,356
Gross change in total reserves for claims	774	(1,486)	12,563
Reinsurers' share of change in total reserves for claims	269	868	(11,577)
Net insurance claims incurred	**(28,658)**	**(27,898)**	**(30,102)**
Net insurance revenue	**17,738**	**16,663**	**15,375**

25. Net Gains from Foreign Currency Translation Differences

Net gains from foreign currency translation differences for the year ended 31 December 2011 include GEL 25,056 thousand of net foreign currency gain from hedging the open currency position that the Group has on the Belarusian Ruble denominated stand-alone shareholders' equity of its subsidiary JSC Belarusky Narodny Bank. Devaluation of Belarusian Ruble depreciated Lari equivalent value of JSC Belarusky Narodny Bank shareholders' equity, loss from which has been recognized through other comprehensive income statement. However, the Bank had long position for the similar notional value of Belarusian Ruble held through currency swap agreement with the National Bank of the Republic of Belarus. Gain from revaluation of this position has been recognized through profit or loss.

26. Salaries and Other Employee Benefits, and General and Administrative Expenses

	2011	*2010*	*2009*
Salaries and bonuses	(117,703)	(103,352)	(96,745)
Social security costs	(1,408)	(1,199)	(3,760)
Salaries and other employee benefits	**(119,111)**	**(104,551)**	**(100,505)**
Marketing and advertising	(15,614)	(12,534)	(9,847)
Occupancy and rent	(9,396)	(10,082)	(10,431)
Repairs and maintenance	(6,330)	(6,205)	(5,313)
Legal and other professional services	(6,077)	(6,149)	(7,010)
Communication	(4,679)	(4,975)	(5,482)
Operating taxes	(4,464)	(4,188)	(4,960)
Office supplies	(3,350)	(3,786)	(2,484)
Travel expenses	(2,412)	(1,975)	(2,019)
Security	(2,061)	(3,055)	(4,647)
Corporate hospitality and entertainment	(1,889)	(1,709)	(1,307)
Banking services	(874)	(756)	(623)
Personnel training and recruitment	(733)	(416)	(177)
Penalties	(329)	(178)	(510)
Insurance	(232)	(678)	(399)
Other	(3,502)	(4,314)	(2,130)
General and administrative expenses	**(61,942)**	**(61,000)**	**(57,339)**

(Thousands of Georgian Lari)

26. Salaries and Other Employee Benefits, and General and Administrative Expenses (continued)

Salaries and bonuses include GEL 12,092, GEL 8,920 and GEL 10,530 of the Executives' Equity Compensation Plan costs for the years ended 31 December 2011, 31 December 2010 and 31 December 2009, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 30 and 34). Executives' Equity Compensation Plan costs for the year ended 31 December 2011 include GEL 2,906 of one-time correction of the respective withholding tax of prior years based on the new tax ruling obtained by the Bank from tax authorities in Georgia.

27. Gain from Hyperinflation

With the effect from 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

In applying IAS 29, the Bank's subsidiaries in Belarus, JSC Belarusky Narodny Bank and BNB Leasing, LLC, have used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus. The CPIs for the six year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 are as follows:

Year	Index, %	Conversion Factors
2006	106.6	320.8
2007	112.1	286.2
2008	113.3	252.6
2009	110.1	229.4
2010	109.9	208.7
2011	208.7	100.0

Monetary assets and liabilities are not recalculated because they are already expressed in terms of the monetary unit current as at 31 December 2011. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as at 31 December 2011) are recalculated by applying the relevant index. The effect of inflation on the Bank's net non-monetary position is included in the income statement as a gain from hyperinflation and is equal to GEL 5,169 for the year ended 31 December 2011.

28. Other Non-operating Income and Other Non-operating Expenses

Other non-operating income for the year ended 31 December 2011 mostly comprises GEL 1,455 income from business combination of Block Georgia group of companies, of which GEL 955 is negative goodwill arising on acquisition and GEL 811 is income from penalties. Other non-operating income for the year ended 31 December 2009 of GEL 5,308, represents gain on repurchase of the Bank's own Euro Bonds.

Other non-operating expenses for the year ended 31 December 2011 mostly comprise GEL 6,431 (2010: GEL 545) loss incurred on repurchase of the Bank's own Euro Bonds, i.e. repurchase of amounts due to BG Finance, and GEL 6,722 of expenses incurred by the Group on seeking a premium listing on London Stock Exchange, respective incorporation of a new holding company in the United Kingdom and the Tender Offer process. For more information on premium listing and the Tender Offer, please, refer to Note 36.

29. Net Loss from Discontinued Operations

In February 2011 the Group declared actual disposal of its 80% equity interest in JSC BG Bank, its subsidiary in Ukraine.

The total consideration including brokerage fees paid to JSC BG Capital, the Bank's wholly owned brokerage subsidiary, amounted to US$9.6 million (GEL 16.8 million), of which US$5.0 million (GEL 8.9 million) has been paid as at the date of this announcement and the remaining US$4.6 million (GEL 8.2 million) is to be paid in 1.5 years from the disposal date.

The Bank retains 19.4% equity interest in PJSC Bank Pershyi (formerly known as JSC BG Bank).

(Thousands of Georgian Lari)

29. Net Loss from Discontinued Operations (continued)

Net loss from this disposal recognized in the consolidated income statement for the year through "Net loss from discontinued operations" is analyzed as follows:

	For the year ended 31 December 2011
Reclassification of foreign currency translation loss from devaluation of Ukrainian Hryvnia accumulated through other comprehensive income during prior years	(29,126)
Realized loss on disposal comprising net difference between the adjusted carrying value of the investment in 80% of JSC BG Bank as at the date of disposal and the fair value of respective consideration received	(5,550)
Impairment of part of the remaining receivables (Note 17)	(3,730)
Immediate corporate income tax benefit recognized from the statutory loss on disposal of 80% stake in JSC BG Bank (Note 16)	23,187
Net loss from discontinued operations	**(15,219)**
Earnings per share for discontinued operations:	
– basic loss per share from discontinued operations	(0.5095)
– diluted loss per share from discontinued operations	(0.4542)

Gain recognized in the statement of comprehensive income for the year through "Other comprehensive gain from discontinued operations" is analyzed as follows:

	For the year ended 31 December 2011
Revaluation reserve of property and equipment of the disposed subsidiary (Note 14)	(2,501)
Reclassification of foreign currency translation loss from depreciation of Ukrainian Hryvnia accumulated through other comprehensive income during prior years (Note 21)	29,126
Foreign currency translation loss from depreciation of Ukrainian Hryvnia during current year (Note 21)	(2,996)
Income tax relating to components of other comprehensive income (Note 16)	625
Other comprehensive gain from discontinued operations	**24,254**
Total comprehensive income for the year from discontinued operations	**9,035**

Total assets and total liabilities of JSC BG Bank as at 31 December 2010 and the results for the year ended 31 December 2011 and 31 December 2010 were as follows:

	As at 31 December 2010
Cash and cash equivalents	34,588
Total Assets	225,903
Total Liabilities	198,609
Net Assets	**27,294**

(Thousands of Georgian Lari)

29. Net Loss from Discontinued Operations (continued)

	For the years ended 31 December	
	2011	*2010*
Revenue	711	13,535
Other operating non-interest expenses	(994)	(16,602)
Loss for the year before income tax benefit	(138)	(6,992)
Income tax benefit	32	940
Loss for the year	(106)	(6,052)

Below is the consolidated income statement of the Group for the year ended 31 December 2011 with comparative information for 2010 and 2009 reclassified for discontinued operations.

	2011	*2010*	*2009*
Interest income			
Loans to customers	438,989	361,101	330,423
Investment securities – available-for-sale	37,701	6,819	–
Amounts due from credit institutions	18,103	9,494	4,546
Finance lease receivables	6,565	2,934	5,112
Investment securities – held-to-maturity	–	12,498	5,725
	501,358	**392,846**	**345,806**
Interest expense			
Amounts due to customers	(167,294)	(97,097)	(82,184)
Amounts due to credit institutions	(99,763)	(91,005)	(88,475)
	(267,057)	**(188,102)**	**(170,659)**
Net interest income before net gains (losses) from derivative financial instruments	**234,301**	**204,744**	**175,147**
Net gains (losses) from derivative financial instruments	4,984	(7,826)	(6,266)
Net interest income	**239,285**	**196,918**	**168,881**
Fee and commission income	93,541	72,171	62,219
Fee and commission expense	(18,204)	(10,043)	(9,087)
Net fee and commission income	**75,337**	**62,128**	**53,132**
Net insurance premiums earned	46,396	44,561	45,477
Net insurance claims incurred	(28,658)	(27,898)	(30,102)
Net insurance revenue	**17,738**	**16,663**	**15,375**
Net gains from trading securities and investment securities available-for-sale	1,382	2,006	2,676
Net gains (losses) from revaluation of investment properties	1,984	536	(4,087)
Net gains from foreign currencies:			
– dealing	45,694	32,893	23,264
– translation differences	30,747	98	3,138
Other operating income	29,052	21,856	11,850
Other operating non-interest income	**108,859**	**57,389**	**36,841**
Revenue	**441,219**	**333,098**	**274,229**
Salaries and other employee benefits	(119,111)	(94,642)	(87,491)
General and administrative expenses	(61,942)	(55,226)	(50,822)
Depreciation and amortization	(27,254)	(27,044)	(21,325)
Other operating expenses	(9,324)	(6,253)	(11,740)
Other operating non-interest expenses	**(217,631)**	**(183,165)**	**(171,378)**
Operating income before cost of credit risk	**223,588**	**149,933**	**102,851**

(Thousands of Georgian Lari)

29. Net Loss from Discontinued Operations (continued)

	2011	*2010*	*2009*
Operating income before cost of credit risk	**223,588**	**149,933**	**102,851**
Impairment charge on loans to customers	(23,216)	(40,197)	(83,925)
(Impairment charge) reversal of impairment on finance lease receivables	(317)	79	(1,008)
Impairment reversal (charge) on other assets and provisions	1,337	(3,655)	(5,692)
Cost of credit risk	**(22,196)**	**(43,773)**	**(90,625)**
Net operating income	**201,392**	**106,160**	**12,226**
Impairment charge on goodwill	(23,394)	–	(73,072)
Impairment charge on property and equipment	–	(435)	(3,200)
Total impairment of goodwill and property and equipment	**(23,394)**	**(435)**	**(76,272)**
Share of (loss) profit of associates	(487)	255	(2,649)
Gain from hyperinflation	5,169	–	–
Other non-operating income	2,903	–	5,308
Other non-operating expenses	(13,529)	(545)	–
Non-operating (expense) income	**(5,944)**	**(290)**	**2,659**
Profit (loss) before income tax (expense) benefit from continuing operations	**172,054**	**105,435**	**(61,387)**
Income tax expense	(21,125)	(16,716)	(2,540)
Profit (loss) for the year from continuing operations	**150,929**	**88,719**	**(63,927)**
Net loss from discontinued operations	(15,219)	(6,052)	(34,981)
Profit (loss) for the year	**135,710**	**82,667**	**(98,908)**
Attributable to:			
– shareholders of the Bank	132,531	83,640	(91,370)
– non-controlling interests	3,179	(973)	(7,538)
	135,710	**82,667**	**(98,908)**

Below are the net cash flows of JSC BG Bank for the year ended 31 December 2011 with comparative information for 2010.

	2011	*2010*
Net cash flows from operating activities	14,015	5,750
Net cash flows (used in) from investing activities	(2,495)	1,063
Effect of exchange rates changes on cash and cash equivalents	3	–
Net cash inflow	**11,523**	**6,813**

(Thousands of Georgian Lari)

30. Share-based Payments

Executives' Equity Compensation Plan

Abacus Corporate Trustee Limited (the "Trustee") acts as the trustee of the Bank's Executives' Equity Compensation Plan ("EECP").

In February 2009 the Bank's Supervisory Board resolved to recommend to the Trustee to award 306,500 Bank's ordinary shares in the form of restricted GDRs to the Group's 17 executives pursuant to the EECP in respect of the year ended 31 December 2008. The awards are subject to three year vesting, with a continuous employment being the only vesting condition. The Group considers 12 February 2009 as the grant date. The Bank estimates that the fair value of the shares on 12 February 2009 was Georgian Lari 5.02 per share.

In February 2010 the Bank's Supervisory Board resolved to recommend to the Trustee to award 432,495 Bank's ordinary shares in the form of restricted GDRs to the Group's 19 executives pursuant to the EECP in respect of the year ended 31 December 2009. The awards are subject to three year vesting, with a continuous employment being the only vesting condition. The Group considers 18 February 2010 as the grant date. The Bank estimates that the fair value of the shares on 18 February 2010 was Georgian Lari 17.29 per share.

Additionally, in March 2010 Deputies of the CEO of the Bank and in May 2010 CEO of the Bank signed a three-year guaranteed share-based compensation agreement with the Bank for the total of 915,000 GDRs. Total amount of GDRs guaranteed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2011, of which each award will be subject to four-year vesting period. The Group considers 29 March 2010 as the grant date for the awards of the Deputies and 25 May 2010 as the grant date for the award of the CEO. The Bank estimates that the fair value of the shares on 29 March 2010 was Georgian Lari 18.48 per share and the fair value of shares on 25 May 2010 was Georgian Lari 18.16.

In February 2011 the Supervisory Board resolve to award 143,500 ordinary shares in the form of GDRs to the members of the Management Board and 123,800 ordinary shares in the form of GDRs to the Groups' 24 executives. Shares awarded to the Management Board are subject to three-year vesting, while shares awarded to the other 24 executives are subject to three vesting, with a continuous employment being the only vesting condition for both awards. The Group considers 21 February 2011 as the grant date. The Bank estimates that the fair value of the shares on 21 February 2011 was Georgian Lari 35.86 per share.

One-off Award

In August 2009 the Bank's Supervisory Board resolved to buy through its brokerage subsidiary the Bank's 420,000 ordinary shares in the form of restricted GDRs and award them to the Group's 21 executives to reinforce long-term motivation of these executives. The awards are subject to three year cliff-vesting, with a continuous employment being the only vesting condition. The Group considers 10 August 2009 as the grant date. The Bank estimates that the fair value of the shares on 10 August 2009 was Georgian Lari 9.61 per share.

Top Grant, Special Grant and Annual Grants to top executives

In August 2007 the Bank's Supervisory Board resolved to propose to the Trustee of the Bank's EECP the award of shares of the Bank in the form of restricted GDRs to the top three executives of the Bank (top two from January 1, 2008 as one resigned before 31 December 2007). Each award will vest fully, or partially, or will not vest at all, at the third anniversary of the date of the grant, depending solely on clearly defined and measurable market-based condition. The awards of each executive comprise top grant and annual grant.

Top grant is a one-time award and was given in 2007 only and its value is restricted by the 200% of the annual base salary of the respective executive in 2007. Annual grant is awarded every year during the three consecutive years' period that such executive is employed by the Bank. In 2007 its value was restricted by 100% of the annual base salary of the respective executive during the vesting period. Based on the changes approved by the Bank's Supervisory Board, the value of the annual grant in 2008 was restricted by the 200%.

The Bank estimated the annual expense of share-based compensation related to 2007 top and annual grants equal 300% of the annual base salary of each executive in 2007.

Based on the Bank's share price performance calculated by an independent consultant the Bank estimated the annual expense of share-based compensation related to 2008 annual grant equals to nil.

(Thousands of Georgian Lari)

30. Share-based Payments (continued)

Top Grant, Special Grant and Annual Grants to top executives (continued)

In September 2009 the Bank's Supervisory Board resolved to adopt changes to the original version of the annual grant approved in August 2007. Namely, the 2009 Annual Grant comprising 245,773 GDRs was granted to the two top executives of the Bank without market-based vesting conditions, with continuous employment being the only 3-year, cliff-vesting condition. The Group considers 11 September 2009 as the grant date. The Bank estimates that the fair value of the shares on 11 September 2009 was Georgian Lari 12.83 per share.

By the same resolution, in September 2009, the Bank's Supervisory Board resolved to award a Special Grant to the same two executives comprising 68,139 GDRs. The award is subject to two year vesting, with a continuous employment being the only vesting condition. The Group considers 11 September 2009 as the grant date. The Bank estimates that the fair value of the shares on 11 September 2009 was Georgian Lari 12.83 per share.

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 32.94 per share in year ended 31 December 2011 (31 December 2010: Georgian Lari 17.96 per share, 31 December 2009: Georgian Lari 9.46).

The Group's total share-based payment expenses for the year ended 31 December 2011 comprised GEL 12,092 (31 December 2010: GEL 8,920, 31 December 2009: 10,530) and are included in "salaries and other employee benefits", as "salaries and bonuses".

Below is the summary of the key share-based payments related data:

Ordinary shares	***2011***	***2010***	***2009***
Number of shares awarded	32,687	38,789	128,908
– *Among them, to supervisory board members*	*32,687*	*38,789*	*55,158*
Number of shares vested	32,687	38,789	52,788
Weighted average value at grant date, per share (GEL in full amount)	22.61	17.20	9.04
Value at grant date, total (GEL)	**739**	**667**	**1,165**
Expense recognized during the year (GEL)	**(739)**	**(667)**	**(1,390)**
GDRs			
Number of GDRs awarded	300,897	1,341,918	1,130,412
– *Among them, to top management**	*20,000*	*461,922*	*463,912*
Number of GDRs vested	148,429	610,000	153,000
Weighted average value at grant date, per share (GEL in full amount)	34.06	17.99	9.51
Value at grant date, total (GEL)	**10,250**	**24,135**	**10,747**
Expense recognized during the year (GEL)	**(11,353)**	**(8,253)**	**(9,140)**
All instruments			
Total number of equity instruments awarded	333,584	1,380,707	1,259,320
– *Among them, to top management* and supervisory board members*	*52,687*	*500,711*	*519,070*
Total number of equity instruments vested	181,116	648,789	205,788
Weighted average value at grant date, per share (GEL in full amount)	32.94	17.96	9.46
Value at grant date, total (GEL)	**10,989**	**24,802**	**11,912**
Total expense recognized during the year (GEL) (Notes 26 and 34)	**(12,092)**	**(8,920)**	**(10,530)**

*** The Chairman and the Chief Executive Officer for the periods prior to 1 January 2011 and the Chief Executive Officer only since 1 January 2011.**

(Thousands of Georgian Lari)

31. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

Supervisory Board
The Supervisory Board is ultimately responsible for overall supervision of all risks and respective strategic decisions as well as for the ultimate approval process of main risk management policies and strategies.

Audit Committee
The Audit Committee is an independent body and is directly monitored by the Supervisory Board. It has the overall responsibility for developing and implementation of overall risk assessment and risk mitigation strategies, principles, frameworks, policies and limits. Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions covering, but not limited to: macroeconomic and environmental risks, general control environment, manual and application controls, risks of intentionally or unintentional misstatements, risk of fraud or misappropriation of assets, information security, anti-money laundering, information technology risks, etc.

Management Board
The Management Board has the responsibility to monitor and manage entire risk process within the Group, on a regular basis, by assigning tasks, creating different executive committees, designing and setting up risk management policies and procedures as well as respective guidelines and controlling their implementation and performance of relevant departments and committees.

Bank Asset and Liability Management Committee
The Bank's Asset and Liability Management Committee ("ALCO") is the core risk management body. It is responsible for managing the Bank's assets and liabilities, all risks associated with them as well as overall financial structure of the Group. It is also primarily responsible for the funding, capital adequacy risk, liquidity risks and market risks of the Bank.

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is Base Case (forecast under normal business conditions) and the other two are Troubled and Distressed Scenarios, which are worse and the worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, changes to the risk profile. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board receives comprehensive Credit Risk report and ALCO report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

(Thousands of Georgian Lari)

31. Risk Management (continued)

Introduction (continued)

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, these do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio of both, financial assets as well as financial liabilities. Identified concentrations of credit risks or liquidity / repayment risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

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

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position

(Thousands of Georgian Lari)

31. Risk Management (continued)

Credit risk (continued)
Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

		Gross maximum exposure		
	Notes	***2011***	***2010***	***2009***
Cash and cash equivalents (excluding cash on hand)	7	465,730	449,835	203,028
Amounts due from credit institutions	8	289,530	116,469	64,620
Loans to customers	9	2,553,442	2,351,697	1,661,331
Finance lease receivables	10	62,919	14,419	16,896
Debt investment securities:				
– Available-for-sale	11	408,075	285,628	6,990
– Held-to-maturity	11	–	21	249,196
Other assets – derivative financial assets	18	36,823	2,933	1,129
		3,816,519	**3,221,002**	**2,203,190**
Financial commitments and contingencies	22	628,702	546,323	288,766
Total credit risk exposure		**4,445,221**	**3,767,325**	**2,491,956**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Group's credit rating system.

		Neither past due nor impaired				
31 December 2011	***Notes***	***High grade***	***Standard grade***	***Sub-standard grade***	***Past due or individually impaired***	***Total***
Amounts due from credit institutions	8	289,530	–	–	–	289,530
Loans to customers:	9					
Corporate lending		1,030,959	75,009	37,888	219,202	1,363,058
Residential mortgages		344,593	12,872	1,477	32,055	390,997
Consumer lending		469,374	13,517	1,224	32,618	516,733
Micro loans		306,124	5,031	1,494	5,917	318,566
Gold – pawn loans		78,785	–	–	–	78,785
		2,229,835	**106,429**	**42,083**	**289,792**	**2,668,139**
Finance lease receivables	10	57,647	4,222	913	577	63,359
Debt investment securities:						
Available-for-sale	11	408,075	–	–	–	408,075
		408,075	**–**	**–**	**–**	**408,075**
Total		**2,985,087**	**110,651**	**42,996**	**290,369**	**3,429,103**

(Thousands of Georgian Lari)

31. Risk Management (continued)

Credit risk (continued)

31 December 2010	Notes	Neither past due nor impaired – High grade	Neither past due nor impaired – Standard grade	Neither past due nor impaired – Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	115,622	847	–	–	116,469
Loans to customers:	9					
Corporate lending		924,320	254,675	42,449	203,106	1,424,550
Residential mortgages		334,430	13,841	703	34,641	383,615
Consumer lending		324,474	13,889	9,251	62,172	409,786
Micro loans		220,820	4,317	3,636	9,689	238,462
Gold – pawn loans		66,749	–	–	–	66,749
Other		2,168	696	7	1,200	4,071
		1,872,961	**287,418**	**56,046**	**310,808**	**2,527,233**
Finance lease receivables	10	10,533	311	872	3,291	15,007
Debt investment securities:						
Available-for-sale	11	285,628	–	–	–	285,628
Held-to-maturity	11	21	–	–	–	21
		285,649	**–**	**–**	**–**	**285,649**
Total		**2,284,765**	**288,576**	**56,918**	**314,099**	**2,944,358**

31 December 2009	Notes	Neither past due nor impaired – High grade	Neither past due nor impaired – Standard grade	Neither past due nor impaired – Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	63,703	917	–	–	64,620
Loans to customers:	9					
Corporate lending		447,481	122,983	94,215	275,135	939,814
Residential mortgages		267,593	26,133	9,772	83,917	387,415
Consumer lending		227,765	26,748	1,915	76,109	332,537
Micro loans		76,003	9,506	6,884	7,588	99,981
Gold – pawn loans		62,829	–	–	–	62,829
Other		–	3,221	352	1,668	5,241
		1,081,671	**188,591**	**113,138**	**444,417**	**1,827,817**
Finance lease receivables	10	7,913	11,441	115	4,571	24,040
Debt investment securities:						
Available-for-sale	11	6,172	–	–	818	6,990
Held-to-maturity	11	249,196	–	–	–	249,196
		255,368	**–**	**–**	**818**	**256,186**
Total		**1,408,655**	**200,949**	**113,253**	**449,806**	**2,172,663**

Past due loans to customers, analyzed by age below, include those that are past due by not more than a few days. These loans are not impaired.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

The credit risk assessment policy for non-past due and individually non-impaired financial assets has been determined by the Bank as follows:

(Thousands of Georgian Lari)

31. Risk Management (continued)

Credit risk (continued)

A financial asset that is neither past due nor impaired for the reporting date, but historically used to be past due more less than 30 days is assessed as a financial asset with High Grade;

A financial asset that is neither past due nor impaired for reporting date, but historically used to be past due more than 30 but less than 60 days is assessed as a financial asset with Standard Grade;

A financial asset that is neither past due nor impaired for reporting date, but historically used to be past due more than 60 days or borrower of this loan has at least an additional borrowing in past due more than 60 days as at reporting date is assessed as a financial asset with Sub-Standard Grade.

Aging analysis of past due but not impaired loans per class of financial assets

31 December 2011	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Consumer lending	17,399	24	–	–	17,423
Residential mortgages	8,345	645	56	1,300	10,346
Corporate lending	2,124	48	–	11,000	13,172
Micro-loans	425	–	–	–	425
Finance lease receivables	332	47	–	43	422
Total	**28,625**	**764**	**56**	**12,343**	**41,788**

31 December 2010	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Consumer lending	12,538	11	3	93	12,645
Residential mortgages	6,967	1,387	275	1,956	10,585
Corporate lending	2,925	–	2,115	5,290	10,330
Micro-loans	503	6	128	–	637
Other	–	144	84	–	228
Finance lease receivables	1,212	–	–	2,079	3,291
Total	**24,145**	**1,548**	**2,605**	**9,418**	**37,716**

31 December 2009	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Consumer lending	14,259	58	–	4	14,321
Corporate lending	12,057	1,124	2,841	28,509	44,531
Residential mortgages	3,502	57	–	16	3,575
Micro-loans	615	4	–	9	628
Other					
Finance lease receivables	1,461	9	–	–	1,470
Total	**31,894**	**1,252**	**2,841**	**28,538**	**64,525**

See Notes 9 and 10 for more detailed information with respect to the allowance for impairment of loans to customers and finance lease receivables, respectively.

The Group specifically monitors performance of the loans with overdue payments in arrears for more than 90 days. Gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 87,836, GEL 117,580 and GEL 139,954 as at 31 December 2011, 31 December 2010 and 31 December 2009, respectively.

(Thousands of Georgian Lari)

31. Risk Management (continued)

Credit risk (continued)

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2011	*2010*	*2009*
Loans to customers:			
Commercial lending	108,730	263,163	473,845
Residential mortgages	7,453	4,386	38,137
Micro loans	1,814	4,664	7,540
Consumer lending	960	2,092	26,624
Other	–	–	11
Financial lease receivables	–	1,882	2,349
Total	**118,957**	**276,187**	**548,506**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by any number of days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Loans are considered to be individually impaired if they are past due by more than only a few days or there are clear indications that the borrower already faces business, financial or other type of problems that hinder its / his /her ability to serve contractual obligations with the Bank. Impairment for all such loans is assessed individually, rather than applying standard collective impairment rates based on just prior history of losses of the Bank.

Individually assessed allowances

For the loan loss allowance determination purposes the Group considers all individually significant loans and classifies them between being individually impaired or not impaired. Allowance for those individually significant loans that are determined to be individually impaired (see definition above) is determined through individual assessment of the associated credit risk by assigning proper credit rating. Allowance non-significant loan that are determined to be individually impaired (see definition above) are also individually assessed. Allowance for losses for individually significant loans that are determined not to be individually impaired is assessed through collective assessment approach described below. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, the timing of the expected cash flows and past history of the debt service of the borrower. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for all loans (including but not limited to credit cards, residential mortgages, and unsecured consumer lending, commercial lending, etc.), both, significant as well as non-significant, where there is not yet objective evidence of individual impairment (see definition above) . Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes into account the impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year, depending on a product. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

(Thousands of Georgian Lari)

31. Risk Management (continued)

Credit risk (continued)

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

	2011			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*
Assets:				
Cash and cash equivalents	312,697	301,166	14,868	628,731
Amounts due from credit institutions	282,353	387	6,790	289,530
Loans to customers	2,508,545	–	44,897	2,553,442
Finance lease receivables	59,479	–	3,440	62,919
Investment securities:				
– available-for-sale	419,555	–	21	419,576
All other assets	691,047	253	19,763	711,063
	4,273,676	**301,806**	**89,779**	**4,665,261**
Liabilities:				
Amounts due to customers	2,514,541	108,337	112,344	2,735,222
Amounts due to credit institutions	42,761	788,067	90,344	921,172
All other liabilities	193,198	–	3,066	196,264
	2,750,500	**896,404**	**205,754**	**3,852,658**
Net balance sheet position	**1,523,176**	**(594,598)**	**(115,975)**	**812,603**

	2010				2009			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	188,426	364,616	58,542	611,584	154,405	127,816	75,668	357,889
Amounts due from credit institutions	91,715	14,538	10,216	116,469	39,447	12,664	12,509	64,620
Loans to customers	2,135,962	8	215,727	2,351,697	1,520,174	–	141,157	1,661,331
Finance lease receivables	10,036	–	4,383	14,419	8,927	–	7,969	16,896
Investment securities:								
– available-for-sale	290,333	60	4,547	294,940	13,418	–	6,172	19,590
– held-to-maturity	21	–	–	21	249,196	–	–	249,196
All other assets	498,175	9,508	108,109	615,792	455,769	8,056	80,082	543,907
	3,214,668	**388,730**	**401,524**	**4,004,922**	**2,441,336**	**148,536**	**323,557**	**2,913,429**
Liabilities:								
Amounts due to customers	1,659,774	101,960	264,574	2,026,308	1,024,771	11,035	237,324	1,273,130
Amounts due to credit institutions	145,398	962,691	30,838	1,138,927	20,102	899,651	8,862	928,615
All other liabilities	135,794	4,232	6,320	146,346	85,588	8,958	18,721	113,267
	1,940,966	**1,068,883**	**301,732**	**3,311,581**	**1,130,461**	**919,644**	**264,907**	**2,315,012**
Net balance sheet position	**1,273,702**	**(680,153)**	**99,792**	**693,341**	**1,310,875**	**(771,108)**	**58,650**	**598,417**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a stand-alone basis, based on certain liquidity ratios established by the NBG. As at 31 December these ratios were as follows:

(Thousands of Georgian Lari)

31. Risk Management (continued)

Liquidity risk and funding management (continued)

	2011, %	*2010, %*	*2009, %*
Average liquidity ratio	36.9%	35.6%	36.5%
Maximum Liquidity ratio	47.2%	44.5%	45.7%
Minimum Liquidity ratio	29.6%	29.1%	21.9%

Average liquidity ratio is calculated on stand-alone basis for JSC Bank of Georgia as annual average (arithmetic mean) of daily liquidity ratios computed as ratio of liquid assets to liabilities determined by National Bank of Georgia as follows:

Liquid assets – comprise cash, cash equivalents and other assets that have character to be immediately converted into cash. Those assets include investment securities issued by Georgian Government plus Certificates of Deposit issued by NBG and not including amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits, amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities – comprise sum of total balance sheet liabilities, less Amounts due to credit institutions that are to be exercised or settled later than six month from reporting date, plus off-balance sheet commitments with residual maturity subsequent to the reporting date of less than six months. Off-balance sheet commitments include all commitments except financial guarantees and letters of credit that are fully collateralized by cash covers in the Bank, and commitments due to dealing operations with foreign currencies. Maximum and minimum rates of liquidity ratio are taken from historical data of appropriate reporting years.

The Group also manages maturity matching of financial assets and financial liabilities and imposes a maximum limit on negative gaps compared to the Bank's stand-alone total regulatory capital calculated per NBG regulation. The ratios are assessed and monitored on a monthly basis and compared against set limits. In case of deviations amendment strategies / actions are discussed and approved by ALCO.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment 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 Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2011	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to customers	1,908,942	654,219	236,243	13,543	2,812,947
Amounts due to credit institutions	195,670	122,709	499,370	434,038	1,251,787
Other liabilities	26,926	53,099	19,783	–	99,808
Total undiscounted financial liabilities	**2,131,538**	**830,027**	**755,396**	**447,581**	**4,164,542**

Financial liabilities As at 31 December 2010	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to customers	1,394,442	528,346	153,963	8,859	2,085,610
Amounts due to credit institutions	151,404	145,753	780,504	530,547	1,608,208
Other liabilities	8,049	33,571	15,649	4,949	62,218
Total undiscounted financial liabilities	**1,553,895**	**707,670**	**950,116**	**544,355**	**3,756,036**

Financial liabilities As at 31 December 2009	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to customers	899,697	333,374	83,097	7,624	1,323,792
Amounts due to credit institutions	76,468	86,724	726,243	511,713	1,401,148
Other liabilities	18,079	22,921	7,468	3,856	52,324
Total undiscounted financial liabilities	**994,244**	**443,019**	**816,808**	**523,193**	**2,777,264**

(Thousands of Georgian Lari)

31. Risk Management (continued)

Liquidity risk and funding management (continued)

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
31 December 2011	335,550	267,617	103,870	12,978	720,015
31 December 2010	245,684	290,662	76,464	24,816	637,626
31 December 2009	98,735	108,050	149,063	27,285	383,133

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis 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.

Included in due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank Group is obliged to repay such deposits upon demand of a depositor. Refer to Note 20.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2011. During the year ended 31 December 2011, year ended 31 December 2010 and year ended 31 December 2009, sensitivity analysis did not reveal significant potential effect on the Group's equity.

Currency	*Increase in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of other comprehensive income 2011*
GEL	0.42%	101	–
USD	0.02%	51	–

Currency	*Decrease in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of other comprehensive income 2011*
GEL	-0.42%	(101)	–
USD	-0.02%	(51)	–

(Thousands of Georgian Lari)

31. Risk Management (continued)

Market risk (continued)

Currency	*Increase in basis points 2010*	*Sensitivity of net interest income 2010*	*Sensitivity of other comprehensive income 2010*
EUR	0.01%	1	–
USD	0.00%	46	–
UAH	0.75%	–	34

Currency	*Decrease in basis points 2010*	*Sensitivity of net interest income 2010*	*Sensitivity of other comprehensive income 2010*
EUR	-0.01%	(1)	–
USD	-0.00%	(46)	–
UAH	-0.75%	–	(34)

Currency	*Increase in basis points 2009*	*Sensitivity of net interest income 2009*	*Sensitivity of other comprehensive income 2009*
EUR	0.10%	2	–
USD	0.10%	186	–
UAH	0.75%	–	52

Currency	*Decrease in basis points 2009*	*Sensitivity of net interest income 2009*	*Sensitivity of other comprehensive income 2009*
EUR	-0.10%	(2)	–
USD	-0.10%	(186)	–
UAH	-0.75%	–	(52)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2011 on its trading and non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended 31 December 2011, year ended 31 December 2010 and year ended 31 December 2009, sensitivity analysis did not reveal significant potential effect on Group's equity.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on other comprehensive income*	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on other comprehensive income*	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on other comprehensive income*
		2011			*2010*			*2009*	
EUR	4.4%	2,392	–	0.8%	234	–	12.7%	(3,792)	–
GBP	3.2%	13	–	0.8%	1	–	16.1%	63	–
RUR	5.1%	25	–	0.7%	3	–	0.3%	(1)	–
UAH	1.3%	1	–	0.3%	–	91	0.3%	–	228
USD	1.3%	1,927	–	0.3%	323	–	1.3%	(669)	–
CHF	4.6%	1,710	–	–	–	–	–	–	–
AZN	1.3%	2	–	–	–	–	–	–	–
TRY	5.1%	17	–	–	–	–	–	–	–
BYR	23.6%	150	–	–	–	–	–	–	–

(Thousands of Georgian Lari)

31. Risk Management (continued)

Market risk (continued)

The Group also monitors foreign currency Value-at-Risk exposures and sets limits on the back of the NBG total regulatory capital. Actual VaR and limits are checked and assessed on a monthly basis by ALCO.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar or whatever reasons.

The Group observes prior history of early repayments by calculating weighted average rate of early repayments across each credit product, individually, applying these historical rates to the outstanding carrying amount of each loan product as at the reporting date and by further multiplying the product by the weighted average effective annual interest rates per each product. Sum of the products is determined a the expected amount of unforeseen losses in case of early repayments that the Bank is exposed as at the reporting date. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties, as the Bank's income.

Estimated effect of prepayment risk on profit and equity of the Group for the year ended 31 December is as follows:

	Effect on net interest income	*Effect on other comprehensive income*
2011	(5,416)	–
2010	(67,605)	–
2009	(14,557)	–

Operational risk

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

Operating environment

As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside of the country and undeveloped debt and equity markets). However over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In management's view, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

(Thousands of Georgian Lari)

32. Fair Values of Financial Instruments

Financial instruments recorded at fair value

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2011*
Financial assets				
Investment securities – available-for-sale	346	415,196	4,034	419,576
Other assets – derivative financial assets	63	36,760	–	36,823
Other assets – trading securities owned	1,115	–	–	1,115
	1,524	**451,956**	**4,034**	**457,514**
Financial liabilities				
Other liabilities – derivative financial liabilities	5,925	9,931	–	15,856
	5,925	**9,931**	**–**	**15,856**

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2010*
Financial assets				
Investment securities – available-for-sale	4,958	284,573	5,409	294,940
Other assets – derivative financial assets	2,250	683	–	2,933
Other assets – trading securities owned	1,218	–	–	1,218
	8,426	**285,256**	**5,409**	**299,091**
Financial liabilities				
Other liabilities – derivative financial liabilities	2,211	15,314	–	17,525
	2,211	**15,314**	**–**	**17,525**

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2009*
Financial assets				
Investment securities – available-for-sale	4,320	11,005	4,265	19,590
Other assets – derivative financial assets	1,129	–	–	1,129
Other assets – trading securities owned	2,268	–	–	2,268
	7,717	**11,005**	**4,265**	**22,987**
Financial liabilities				
Other liabilities – derivative financial liabilities	288	7,172	–	7,460
	288	**7,172**	**–**	**7,460**

(Thousands of Georgian Lari)

32. Fair Values of Financial Instruments (continued)

Financial instruments recorded at fair value (continued)

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Trading securities and investment securities available-for-sale

Trading securities and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2009	*Transfer from other assets*	*At 1 January 2010*	*Purchase of AFS securities*	*At 31 December 2010*	*Sale of AFS securities*	*At 31 December 2011*
Financial assets							
Investment securities – available-for-sale	–	4,265	4,265	1,144	5,409	(1,375)	4,034
Total level 3 financial assets	**–**	**4,265**	**4,265**	**1,144**	**5,409**	**(1,375)**	**4,034**
Total net level 3 financial assets	**–**	**4,265**	**4,265**	**1,144**	**5,409**	**(1,375)**	**4,034**

No financial instruments were transferred during year ended 31 December 2011 from level 1 and level 2 to level 3 of the fair value hierarchy. Gains or losses on level 3 financial instruments during year ended 31 December 2011 comprised nil.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	Carrying amount	*Effect of reasonably possible alternative assumptions*	*Carrying amount*	*Effect of reasonably possible alternative assumptions*	*Carrying amount*	*Effect of reasonably possible alternative assumptions*
	2011		***2010***		***2009***	
Financial assets						
Investment securities – available-for-sale	4,034	+/- 607	5,409	+/- 814	4,265	+/- 642

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable model inputs as follows:

For equities, the Group adjusted the EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) multiple by increasing and decreasing the assumed multiple ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the EBITDA multiples used across peers within the same geographic area of the same industry.

(Thousands of Georgian Lari)

32. Fair Values of Financial Instruments (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2011	*Fair value 2011*	*Unrecognised loss 2011*
Financial assets			
Cash and cash equivalents	628,731	628,731	–
Amounts due from credit institutions	289,530	289,530	–
Loans to customers	2,553,442	2,546,648	(6,794)
Finance lease receivables	62,919	62,919	–
Financial liabilities			
Amounts due to customers	2,735,222	2,758,210	(22,988)
Amounts due to credit institutions	921,172	921,172	–
Total unrecognised change in unrealised fair value			**(29,782)**

	Carrying value 2010	*Fair value 2010*	*Unrecognised gain (loss) 2010*	*Carrying value 2009*	*Fair value 2009*	*Unrecognised loss 2009*
Financial assets						
Cash and cash equivalents	611,584	611,584	–	357,889	357,889	–
Amounts due from credit institutions	116,469	116,469	–	64,620	64,620	–
Loans to customers	2,351,697	2,319,388	(32,309)	1,661,331	1,621,779	(39,552)
Finance lease receivables	14,419	14,419	–	16,896	16,896	–
Investment securities:						
– held-to-maturity	21	21	–	249,196	249,196	–
Financial liabilities						
Amounts due to customers	2,026,308	2,041,403	(15,095)	1,273,130	1,271,958	1,172
Amounts due to credit institutions	1,138,927	1,138,927	–	928,615	928,615	–
Total unrecognised change in unrealised fair value			**(47,404)**			**(38,380)**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

(Thousands of Georgian Lari)

33. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 31 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2011		
	Within one year	*More than one year*	*Total*
Financial assets			
Cash and cash equivalents	628,731	–	628,731
Amounts due from credit institutions	277,448	12,082	289,530
Loans to customers	1,231,077	1,322,365	2,553,442
Finance lease receivables	16,767	46,152	62,919
Investment securities:			
– available–for–sale	340,179	79,397	419,576
Total	**2,494,202**	**1,459,996**	**3,954,198**
Financial liabilities			
Amounts due to customers	2,536,761	198,461	2,735,222
Amounts due to credit institutions	265,121	656,051	921,172
Total	**2,801,882**	**854,512**	**3,656,394**
Net	**(307,680)**	**605,484**	**297,804**

	2010			2009		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets						
Cash and cash equivalents	611,584	–	611,584	357,889	–	357,889
Amounts due from credit institutions	107,707	8,762	116,469	60,121	4,499	64,620
Loans to customers	1,191,914	1,159,783	2,351,697	655,906	1,005,425	1,661,331
Finance lease receivables	8,828	5,591	14,419	12,466	4,430	16,896
Investment securities:						
– available–for–sale	242,535	52,405	294,940	19,590	–	19,590
– held–to–maturity	21	–	21	249,196	–	249,196
Total	**2,162,589**	**1,226,541**	**3,389,130**	**1,355,168**	**1,014,354**	**2,369,522**
Financial liabilities						
Amounts due to customers	1,881,371	144,937	2,026,308	1,198,357	74,773	1,273,130
Amounts due to credit institutions	193,386	945,541	1,138,927	37,866	890,749	928,615
Total	**2,074,757**	**1,090,478**	**3,165,235**	**1,236,223**	**965,522**	**2,201,745**
Net	**87,832**	**136,063**	**223,895**	**118,945**	**48,832**	**167,777**

The Group's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. In the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, 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 one month in the tables above.

(Thousands of Georgian Lari)

33. Maturity Analysis of Financial Assets and Liabilities (continued)

The Group's principal sources of liquidity are as follows:

- deposits;
- borrowings from international credit institutions;
- inter-bank deposit agreement;
- debt issues;
- proceeds from sale of securities;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

As at 31 December 2011 amounts due to customers amounted to GEL 2,735,222 (2010: GEL 2,026,308, 2009: GEL 1,273,130) and represented 71% (2010: 61%, 2009: 55%) of Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2011 amounts owed to credit institutions amounted to GEL 921,172 (2010: GEL 1,138,927, 2009: GEL 928,615) and represented 24% (2010: 34%, 2009: 40%) of total liabilities.

In management's opinion, liquidity is sufficient to meet the Group's present requirements.

34. Related Party Disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or 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.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All translations with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	2011			*2010*			*2009*		
	Parent	*Asso-ciates**	*Key management personnel*	*Parent*	*Asso-ciates*	*Key management personnel*	*Parent*	*Asso-ciates*	*Key management personnel*
Loans outstanding at 1 January, gross	**–**	**2,191**	**4,758**	**–**	**9,255**	**5,791**	**265**	**21,644**	**5,572**
Loans issued during the year	–	954	7,951	–	624	7,125	–	7,736	5,616
Loan repayments during the year	–	(5,493)	(6,663)	–	(707)	(6,877)	(265)	(10,322)	(8,633)
Other movements	–	2,652	512	–	(6,981)	(1,281)	–	(9,803)	3,236
Loans outstanding at 31 December, gross	**–**	**304**	**6,558**	**–**	**2,191**	**4,758**	**–**	**9,255**	**5,791**
Less: allowance for impairment at 31 December	–	2	115	–	(1,564)	(119)	–	(870)	(212)
Loans outstanding at 31 December, net	**–**	**306**	**6,673**	**–**	**627**	**4,639**	**–**	**8,385**	**5,579**
Interest income on loans	–	870	718	–	344	611	–	1,250	799
Loan impairment charge	–	2	32	–	661	65	–	594	(92)
Deposits at 1 January	**36,410**	**726**	**8,999**	**12,098**	**506**	**6,919**	**12,733**	**177**	**18,324**
Deposits received during the year	35,365	24,660	21,574	41,646	16,185	36,658	–	27,989	42,908
Deposits repaid during the year	(32,147)	(25,229)	(22,254)	(16,851)	(16,127)	(33,522)	(635)	(27,792)	(54,647)
Other movements	(2,898)	14	(2,416)	(483)	162	(1,056)	–	132	334
Deposits at 31 December	**36,730**	**171**	**5,903**	**36,410**	**726**	**8,999**	**12,098**	**506**	**6,919**
Interest expense on deposits	3,019	33	441	1,681	68	471	–	5	425
Other income	693	–	78	1,671	–	69	437	–	35

**** During the year ended 31 December 2011 loans to two legal entities, controlling stakes of which were owned by a member of the Bank's Management Board and a member of the Bank's Supervisory Board, were outstanding. A total of GEL 775 interest income was recognized on these loans in the consolidated income statement for the year ended 31 December 2011. GEL 36 gross loan remains outstanding as at 31 December 2011.***

(Thousands of Georgian Lari)

34. Related Party Disclosures (continued)

Compensation of key management personnel was comprised of the following:

	2011	2010	2009
Salaries and other benefits	17,573	20,530	17,833
– Among them, termination benefits	*422*	*426*	*759*
Share-based payments compensation (Notes 26 and 30)	12,092	8,920	10,530
– Among them, termination benefits	–	*1,183*	*2,178*
Social security costs	206	441	256
Total key management compensation	**29,871**	**29,891**	**28,619**

The number of key management personnel at 31 December 2011 was 169 (31 December 2010: 163, 31 December 2009: 151).

35. Capital Adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank and the ratios established by the Basel Capital Accord 1988.

During year ended 31 December 2011, the Bank and the Group had complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2011, 31 December 2010 and 31 December 2009 the Bank's capital adequacy ratio on this basis was as follows:

	2011	*2010*	*2009*
Core capital	512,238	494,128	535,427
Supplementary capital	463,825	423,389	269,729
Less: Deductions from capital	(184,323)	(367,418)	(347,853)
Total regulatory capital	**791,740**	**550,099**	**457,303**
Risk-weighted assets	**4,872,931**	**3,800,624**	**2,717,084**
Total capital adequacy ratio	**16.2%**	**14.5%**	**16.8%**

Regulatory capital consists of Core capital, which comprises share, additional paid-up capital, retained earnings including current year profit, foreign currency translation and non-controlling interests less accrued dividends, net long positions in own shares and goodwill. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG. The other component of regulatory capital is Supplementary capital, which includes subordinated long-term debt, preference shares and revaluation reserves.

(Thousands of Georgian Lari)

35. Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on consolidated statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2011, 31 December 2010 and 31 December 2009, follows:

	2011	*2010*	*2009*
Tier 1 capital	764,377	637,971	548,710
Tier 2 capital	380,301	404,788	369,480
Less: Deductions from capital	(49,341)	(70,722)	(67,454)
Total capital	**1,095,337**	**972,037**	**850,736**
Risk-weighted assets	**3,839,462**	**3,653,247**	**2,454,763**
Total capital ratio	28.5%	26.6%	34.7%
Tier 1 capital ratio	19.9%	17.5%	22.4%
Minimum capital adequacy ratio	**8%**	**8%**	**8%**

36. Event after the Reporting Period

On 24 February 2012 BGH announced that the EBRD and IFC have converted part of their respective loans to the Bank into Bank shares and accepted the Tender Offer with respect to such Bank shares (the "Loan Conversion"). Total nominal (contractual) amount of US$ 49,903,083 was converted into 3,635,006 newly issued ordinary shares of the Bank. After this conversion, Tier 1 and Total Capital adequacy ratios of the Bank, in accordance with NBG regulation, comprised 15.3% and 17.9% as of 29 February 2012, respectively.

On 28 February 2012 Bank of Georgia Holdings plc ("BGH") announced that: (i) all of the conditions for the successful completion of its tender offer (the "Tender Offer") to acquire the entire issued and to be issued share capital of the Bank were satisfied, or, where permitted, waived; (ii) that 35,909,383 BGH shares, as of 8:00am on 28 February 2012, were admitted to trading on the premium segment on the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc's Main Market for listed securities under the ticker BGEO.LN ("Admission"); and (iii) accordingly, the Tender Offer is unconditional in all respects. The Tender Offer expired on Friday, 24 February 2012 at 5:00 pm, London time. As described above, the EBRD and IFC converted part of their respective loans to the Bank into the Bank's shares and accepted the Tender Offer with respect to such shares of the Bank (the "Loan Conversion"). Valid acceptances of the Tender Offer were received in respect of 98.17 per cent (before the Loan Conversion) and 98.35 per cent (after the Loan Conversion) of the Bank's issued and outstanding share capital.

Reference is made to the issue of US$200,000,000 9.0 per cent Loan Participation Notes due 2012 (ISIN:XS0283756624; Common Code:028375662) (the "Notes") issued by BG Finance B.V. (the "Issuer") for the sole purpose of funding a loan (the "Loan") to the Bank pursuant to a loan agreement dated 6 February 2007 between the Issuer and the Bank (the "Loan Agreement"). In accordance with the terms and conditions of the Notes, on 8 February 2012 (the "Maturity Date") the Notes were redeemed in full. Notes with a par value of US$144, 493,000 had been repurchased by the Bank prior to the Maturity Date and the remaining Notes (with a par value of US$55,507,000) were repaid on the Maturity Date. Average liquidity ratio of the Bank for February 2012, in accordance with the NBG liquidity regulation, comprised 38.2% as compared to the minimal required of 30%.