BANK OF GEORGIA

ANNUAL REPORT 2011

საქართველოს ბანკი
BANK OF GEORGIA

BANK OF GEORGIA HIGHLIGHTS

Statement of Income Figures	*Year*		*Change*
GEL[1] mln	**2011**	**2010**	
Revenue	441	347	27%
Operating Costs[2]	218	200	9%
Cost of Credit	(22)	(48)	-53%
Net Operating Income	201	99	103%
Profit[3]	151	83	83%

Balance Sheet Highlights	*Year*		*Change*
GEL mln	**2011**	**2010**	
Loans[4]	2,616	2,366	11%
Total Assets	4,665	4,005	16%
Amount due to Customers	2,735	2,026	35%
Total Liabilities	3,853	3,312	16%
Equity	813	693	17%

Selected Ratios	*Year*		*Change*
	2011	**2010**	
Cost to Income	49.3%	57.6%	-14%
ROAA[5]	3.6%	2.4%	50%
ROAE[6]	20.4%	13.5%	51%
Tier I Capital Adequacy Ratio (BIS)[7]	19.9%	17.5%	14%
Total Capital Adequacy Ratio (BIS)[7]	28.5%	26.6%	7%

Selected Operating Data[8]	*Year*		*Change*
	2011	**2010**	
Branches	158	142	11%
ATMs	426	405	5%
Employees (full-time, consolidated)	7,301	5,610	30%

Ratings	*Foreign Currency (Long-term/Short-term)*	*Local Currency*
Standard & Poor's	BB-/B	BB-/B
Fitch Ratings	BB-/B	BB-/B
Moody's Investor Service	B1/NP' (FC)	'Ba3/NP' (LC)

Exchange Rate (year-end)	*Year*	
	2011	**2010**
GEL/USD	1.6703	1.7728
GEL/GBP	2.5776	2.7393

JSC Bank of Georgia (the Bank or Bank of Georgia) is the leading bank in Georgia based on total assets (with a 36% [9] market share); total gross loans (with a 35% market share) and total customer deposits (with a 36% market share) as of 31 December 2011. The Bank has one of the largest distribution networks in Georgia, with 158 branches, including full-service flagship branches, service centres and smaller-scale sales outlets; the largest ATM network in Georgia, a full-service remote banking platform and a modern call centre. Bank of Georgia offers a broad range of corporate banking, retail banking, wealth management, insurance and brokerage services to its clients.

[1] Georgian Lari (GEL or Lari) is the currency of Georgia
[2] Other operating non-interest expenses
[3] Profit (loss) for the year from continuing operations
[4] Loans include Net loans to customers and finance lease receivables
[5] Return On Average Total Assets (ROAA) equals Net Profit for the period from continuing operations divided by monthly Average Total Assets for the same period
[6] Return On Average Total Equity (ROAE) equals Net Profit for the period from continuing operations attributable to shareholders of the Bank divided by monthly Average Equity attributable to shareholders of the Bank for the same period
[7] BIS Tier I and Total Capital Ratios are calculated on a standalone basis in accordance with the requirements of Basel Capital Accord I
[8] For Georgia on a standalone basis, unless otherwise noted
[9] According to data published by the National Bank of Georgia

feel the future

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LETTER OF THE CHAIRMAN OF THE SUPERVISORY BOARD

NEIL JANIN

Chairman of the Supervisory Board of Bank of Georgia
Chairman of Bank of Georgia Holdings plc Board

Dear Shareholders,

2011 has been a remarkable year for your bank. Bank of Georgia joined the register of the London Stock Exchange premium listed companies following the tender offer announced by its UK – incorporated holding company in December 2011. The high level of participation in the tender offer reflected strong support from shareholders and on 28 February 2012, a wide range of investors, previously restricted in trading overseas securities, gained access to the extraordinary story of Bank of Georgia, which has great opportunities as a leveraged play on the vibrant and growing economy of Georgia.

In my letter to you last year I talked about Georgia's economy as a success story in the eradication of corruption that could serve as an example for many others. In 2011, Georgia continued to stand out as a country that can boast one of the world's lowest corruption and crime rates, well-functioning public institutions, prudent banking regulation and a dynamic and growing private sector poised to benefit from the healthy fundamentals of the growth economy and significant inward investment into the country. This year, I would like to touch upon selected economic metrics and main growth drivers of this country that, I believe, is still one of the most notable and rare examples of an investor and business friendly environment.

Despite extremely challenging global economic conditions and low growth in many parts of the world, in 2011, Georgia achieved an estimated 7% real GDP growth to US$14 bn, and foreign exchange reserves that grew 25% to a record US$2.8 million. The country maintained external public debt at a comfortable level of 29% of GDP, decreased its budget deficit from 6.6% of GDP in 2010 to 3.7% in 2011 and annual inflation of 2%.

The market-oriented reforms of the past several years have not only helped Georgia weather the crisis of 2008, but have created a solid foundation for the country's development. Significant ongoing investment in infrastructure is aimed at enabling Georgia reap the benefits of being the transit and logistics hub of the region and substantially develop growth areas such as hydroelectric power and tourism; distinctive competitive advantages of the country. Already an established regional energy transit hub, Georgia serves as a transport corridor to two crude oil pipelines, one of them the world's second largest, and two gas pipelines, transporting oil and gas to Europe through Turkey.

As a cheap producer of hydroelectric power than its neighboring countries, Georgia, which enjoys significant untapped hydropower capabilities is gearing up for taking full advantage of these hydroelectric power opportunities. Ongoing investments, both domestic and foreign, in hydropower generating plants and, more importantly, the completion of a new power transmission line to Turkey, will allow Georgia to increase its total transmission capacity 15-fold from the current 1.3TWH and, as a result, will notably increase its electricity exports over the next few years.

Bold investments in tourism-related infrastructure have been bearing fruit for the second consecutive year. 2011 clearly marks the come-back of Georgia, the top tourist destination in Soviet times, as a desired place to visit, with number of tourists rising from approximately 700,000 in 2006 to nearly 3 million in 2011. Foreign tourism revenues are estimated at US$937 million in 2011, a number that is expected to keep growing along with the expected increase in tourists, estimated by the Government to reach 5 million per annum by 2015.

Tourism revenues, now approaching the level of net remittances of US$1.2 billion, the more traditional source of capital inflow for the country, are expected to become a more significant source of capital inflow. Tourism revenues and the steady increase in revenues from exports are expected to gradually diminish Georgia's reliance on the foreign direct investment (FDI) and donor funding. In 2011, FDI reached circa US$1 billion and is estimated to reach US$1.6 billion by 2015. Diversified across various sectors, FDI is supporting ongoing investments in capital intensive areas (such as hydropower transmission assets), that are also benefiting from donor funding. Approximately US$2 billion of US$4.5 bn pledged donor funds remain undisbursed.

More importantly, strong support from the international community took a more meaningful and tangible shape in 2011. Free Trade Agreements with the EU, currently in the negotiation phase and with the US, currently under discussion, once in place can significantly boost new markets for Georgian products that will lead to further integration of the country with the Western world translating into increased exports and investments to Georgia from these countries.
Another important consideration for investors is the continuation of Georgia's liberal policy and ease of doing business. The country's unrelenting commitment to market-oriented development has been underpinned by the ratification of the Liberty Act that will ensure that, from 2014, Government expenditure is capped at 30% of GDP, budget deficit below 3% of GDP and Government debt does not exceed 60% of GDP.

The stabilisation in Georgia's political landscape, both international and domestic, is also worth noting. The WTO accession by Russia, which became possible only after Georgian removal of its objection, will probably not result in Georgian products entering Russian market in the immediate future, but serves as an indication of a step in the right direction. The upcoming parliamentary elections in October 2012 are not expected to bring significant changes – with the President currently enjoying a 79% approval rating, according to the public opinion survey conducted by US firm Greenberg Quinlan Rosner, and with the broad spectrum of the opposition parties in favour of the continuation of recent economic reforms.

Georgia's achievements have not gone unnoticed by the international community. In the fourth quarter 2011, S&P and Fitch Ratings upgraded the country's ratings at a time many countries have been downgraded by the same agencies. S&P raised Georgia`s Long-Term Foreign and Local Currency Ratings to "BB-" and Fitch Ratings upgraded Georgia's Long-term foreign and local currency Issuer Default Ratings to 'BB-' from 'B+, noting the country's strong growth performance, strong progress in controlling fiscal deficit and reduction of inflation, among other factors.
With these important elements in place, stemming from the far-reaching reforms enacted several years ago, Georgia offers unique and rewarding opportunities for inward investments. In this report, you will find more information on the stellar performance of your bank, which has an ever-growing role to play in the development of the Georgian economy. I hope in 2012 many of you will join me and many other gratified observers, in our shared anticipation and enthusiasm for the future of Georgia and Bank of Georgia. Irakli Gilauri has built a strong and extremely motivated management team that is well positioned to deliver another excellent business performance in 2012.

Sincerely,

Neil Janin
Chairman of the Supervisory Board of Bank of Georgia
Chairman of Bank of Georgia Holdings plc Board

CHIEF EXECUTIVE'S STATEMENT

IRAKLI GILAURI

Chief Executive Officer of Bank of Georgia
Chief Executive Officer of Bank of Georgia Holdings plc

A YEAR TO REMEMBER

Dear fellow shareholders,

On 28 February 2012, we announced that Bank of Georgia Holdings plc, now the parent company of your bank, was admitted to trading on the premium segment of the main market of the London Stock Exchange. This is, undoubtedly, one of the most notable milestones in your bank's history, and is a clear demonstration of the confidence and trust this company has built amongst its shareholders, who strongly supported the move to the premium listing. We firmly believe that as a UK-incorporated company listed on the premium market, we will offer shareholders great governance and transparency combined with exposure to the fast growing Georgian economy and well regulated banking sector.

More importantly, your bank is, as always, focused on delivering strong results. In 2011, Bank of Georgia's profit from continuing operations increased 82.6% to a record GEL 151 million. Our return on equity of 20.4% was supported by the revenue growth of 27.3% and compares to a return on equity 13.5% in 2010. Earnings per share grew 78.1% to GEL 4.95, or US$2.96 or GBP1.92.

Throughout last year we made significant progress against the strategic objectives set out for 2011. We strengthened our balance sheet, as client deposits grew to GEL 2,554 million increasing GEL 549 million, comfortably financing the net loan book growth of GEL 250 million, to GEL 2,616 million. The resulting 102.4% Loan to Deposit ratio, leverage at 4.7x and Tier I Capital ratio (BIS) of 19.9%, translates into the strongest and most conservative balance sheet in the history of the bank. Our cost of risk more than halved to 0.9%, whilst non performing lending balances reduced by 17.3%, reflecting the impact of our prudent risk management disciplines demonstrated and the improved economic conditions in Georgia.
Strong growth notwithstanding, our focus on positive operating leverage has remained a consistent priority. Our 27.3% revenue growth significantly exceeded operating cost growth of 8.9% and led to a markedly improved Cost to Income ratio of 49.3%, a significant improvement from 57.6% in 2010.

We have invested in organic growth of our key strategic businesses throughout the year. We further extended our reach in retail banking by issuing more than 325,000 new debit and credit cards; increased our lending presence at contracted merchants through Point of Sales desks from 99 desks to 179 desks, resulting in the POS loans outstanding increasing to GEL 25 million from GEL 6 million last year; In December we launched Express Banking - small-format service points. Express branches will free up our branches for higher value-added services, while making simple banking transactions easy for our clients. More than 5,000 corporate accounts were opened during the year, compared to less than 2,000 opened in 2010, and the volume of client funds managed by our wealth management business increased almost five times to approximately GEL 450 million.

As a group, we will continue to invest in areas that drive future growth. In my last year's letter, I talked about our resolve to capture the growth opportunities in Georgia's insurance and healthcare sectors, presented by the underpenetrated and fragmented insurance market, and to further enhance the vertical integration of the life and non-life insurance business of Aldagi BCI, the bank's insurance subsidiary, and its healthcare business. To this end, Aldagi BCI has acquired the assets and liabilities of the twelfth largest insurance company in Georgia and the merger of MFC, its healthcare provider subsidiary, the largest healthcare provider in Georgia, is also worth of noting. MFC is now the country's largest healthcare provider, with Aldagi BCI retaining a controlling interest.

Our strong business performance has continued to strengthen our leadership positions across our customer franchise and we remain confident that we have all the right elements in place to take full advantage of the growth opportunities presented by the significantly improving operating environment in Georgia, which has delivered a consistently strong macroeconomic performance over the last decade. Robust and sustainable key economic drivers in Georgia have created a mid-teens nominal GDP growth expectation over the medium term, and Bank of Georgia is exceptionally well placed to benefit from this improved macroeconomic outlook. As a leveraged play on the growing Georgian economy, with leading market shares in lending, deposits and current account banking, Bank of Georgia remains uniquely placed to benefit over the next few years in what is a rapidly growing, highly capitalised and profitable banking market.

We are well capitalised and highly liquid, and remain determined to maintain our focus on our core strategic businesses that are retail banking, corporate banking and wealth management. We will be taking resolute steps towards improving our company's agility and efficiency to become a more lean and effective company, with a sharp focus on doing what we are best at. We remain confident in our 3x 20% strategy, which implies 20% plus metric for our return on equity, Tier I capital strength and business growth, the latter driven by customer lending growth, as well as increased cross-selling and contribution from our synergistic businesses. Our progressive dividend policy will ensure we maintain strong capital management disciplines during what promises to be an exciting period of strong growth.

We are exceptionally well placed to continue to deliver a strong performance in 2012 and beyond, which we believe will translate into an improved valuation of your stock. Bank of Georgia Holdings is expected to become a component of the FTSE All Share Index in June 2012, and we also hope to be included in the FTSE 250 index in the near future.

In conclusion, I would like to note that none of the achievements of the past year would have been possible without the irreplaceable support and guidance from our Supervisory Board members, and the professionalism and dedication of the management and employees who remain constantly focused on fully realising the potential of your bank. I would like to thank each one them and, most importantly, our shareholders who have supported us throughout this truly memorable year.

Sincerely,

Irakli Gilauri

Chief Executive Officer of Bank of Georgia and
Bank of Georgia Holdings plc

MANAGEMENT REPORT

OUR BUSINESS

As of the date of this Annual Report, the ultimate parent holding company of the Bank of Georgia group of companies (the Group) is Bank of Georgia Holdings plc (BGH), a company incorporated under the laws of England and Wales in October 2011.

BGH became the new parent holding company of the Group on 28 February 2012, the date on which the shares of BGH (BGH shares) were admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc's Main Market for listed securities. Such admission followed the successful completion of the tender offer by BGH whereby BGH acquired 98.35% of the issued share capital of JSC Bank of Georgia (the Bank or Bank of Georgia). As of the date of this Annual Report, BGH holds 98.35% equity interest in the Bank.

BGH's registered office and principal place of business is at 84 Brook Street, London, W1K 5EH, United Kingdom. BGH's Articles of Association are available for inspection at BGH's office as well as on the BGH website, www.bogh.co.uk.

Bank of Georgia is a commercial bank, which was established in December 1994 under the laws of Georgia. The Bank is the Group's main operating unit and accounts for most of the Group activities. *(see the list of companies included in the Group in Note 2 of this Annual Report)*. As of the date of this Annual Report, the Bank's registered legal address is 29[a] Gagarini Street, Tbilisi 0160 Georgia. The Bank's corporate website is www.bankofgeorgia.ge.

Bank of Georgia is the leading bank in Georgia based on total assets (with a 36% market share), total gross loans (with a 35% market share) and total customer deposits (with a 36% market share) as of 31 December 2011. As of the same date, the Bank had one of the largest distribution networks in Georgia, with 158 branches, including full-service flagship branches, service centres and smaller-scale sales outlets; the largest ATM network in Georgia, comprising 426 ATMs; 99 self service terminals, a full-service remote banking platform and a modern call centre. As of 31 December 2011, the Bank served approximately 900,000 corporate and retail clients.

The Group's activities are organised, for management reporting purposes, into three main business segments that are strategic, synergistic and non-core businesses. Strategic businesses comprise retail and corporate banking, provided through Bank of Georgia, as well as wealth management. Synergistic businesses comprise insurance and healthcare through Aldagi BCI (ABCI), affordable housing through SBRE and domestic brokerage through BG Capital. Non-core businesses include banking operations in Belarus, provided through Belarusky Narodny Bank (BNB), and Liberty Consumer, a Georgia-focused investment company. A description of the Group's businesses and the products and services they provide to their respective clients are as follows. *(for additional information see Segment Results of this Annual Report)*.

In November 2011, Bank of Georgia moved to new Headquarters

Constructed in 1975, the former Ministry of Highway Constructions building is a recognised landmark of Soviet-era architecture.

Brand restyling

In 2011, the brand restyling was carried out in order to update the Bank's corporate brand. A new slogan, "feel the future" conveys the Bank's innovative corporate spirit.

Launch of new website

The new-look corporate website redesigned to reflect the Bank's brand restyling. The website offers improved navigation in order to provide simple and relevant information to the Bank's customers and shareholders.

WWW.BANKOFGEORGIA.GE

OUR BUSINESS

RETAIL BANKING

Bank of Georgia operates the largest retail bank in Georgia, with market shares of 35%, based on loans to individuals and 32% based on deposits from individuals. Bank of Georgia's retail banking products and services include retail lending, multicurrency deposit accounts, ATM services, internet, telephone and SMS banking, direct debit, utility bill payments and other money transfer services.

The largest provider of personal loans in the country, retail banking provides services to more than 880,000 clients in Georgia and more than 1,700 sales force assists clients with their checking, savings accounts, money-transfers, mortgage loans, consumer loans, micro and Small and Medium Enterprise (SME) business loans, pawn loans and other banking services through 158 branches across the country. Retail banking also offers POS loans (Point-of-sale) or express loans, for consumer goods sold at merchant stores and automobile loans, also available at nine dealers, where the Bank maintains physical presence.

Retail banking includes Solo Banking (our premier banking service) comprising a specially developed package of products and services, including its flagship American Express Gold cards, to serve mass affluent retail banking clients. Retail banking offers its clients a wide range of international debit cards to different retail banking client segments. The issuer of the first credit card in Georgia, the Bank is the exclusive partner of American Express for both acquiring and issuing American Express cards in Georgia. Since 2010, the Bank has also been the exclusive partner of Diners Club International acquiring business in Georgia and an ATM processor for Diners Club International and Discover card transactions.

CORPORATE BANKING

Corporate banking is the country's largest corporate lender, with 34% market share by loans to legal entities and the largest corporate deposit-taker with 41% market share by deposits from legal entities. Corporate banking delivers extensive sector knowledge, local expertise and dedicated service to approximately 9,000 corporate clients in Georgia. Corporate banking extends loans and other credit facilities to its corporate clients representing various sectors of the economy, including retail and wholesale trade, construction and real estate, industry and state, pharmaceuticals and healthcare, among others. Corporate banking provides corporate lending and finance leasing (principally in US Dollars) in addition to offering current and deposit accounts, account administration and cash management services, payroll services, trade financing and foreign exchange services. Corporate banking lending activities include the provision of working capital loans, fixed asset financing, revolving credit lines and overdrafts as well as project finance. The Bank offers a range of corporate deposit products in Lari and in foreign currencies, including multicurrency current accounts, term deposits and demand deposit accounts. Corporate banking provides leasing services through the Bank's wholly-owned subsidiary, Georgian Leasing Company.

Corporate banking operates an integrated client coverage model for its corporate banking clients. Each corporate banking client is assigned a dedicated relationship banker who facilitates and coordinates the client's interaction with the Bank's product specialists.

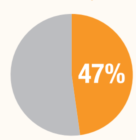
As the leading trade finance service provider, active on both domestic and international markets, corporate banking offers trade finance services worldwide through its network of correspondent banks and international commercial banks as well as the Global Trade Finance Programme with International Finance Corporation (IFC) and the Trade Facilitation Programme with the European Bank for Reconstruction and Development (EBRD). The Bank's trade finance products include pre-export financing, import financing, issuing, advising, confirming and discounting letters of credits, stand-by letters of credit, and guarantees, documentary collections and factoring.

SELECTED HIGHLIGHTS OF STRATEGIC BUSINESSES

RETAIL BANKING

- Outstanding number of retail banking clients grew 8% to more than 880,000
- Since December 2011 retail banking clients receive expedited transactional banking services at nine brand new Express branches in Tbilisi
- Issued 263,143 debit cards in 2011 bringing the total debit cards outstanding to more than 535,000
- Number of credit cards outstanding grew 20% to more than 127,000
- Exclusive issuer of Amex Cards in Georgia having issued more than 100,000 Amex Cards since December 2010
- POS loans offered at 179 desks at 369 merchants in 2011 compared to 99 desks at 177 merchants offered in 2010. POS loans outstanding reached GEL 24.7 million, up from GEL 6.5 million in 2010
- Volume of transactions through POS terminals increased 98% to GEL 246.6 million, number of POS transactions increased from 1.5 million to 3.0 million in 2011
- 1,726 new clients joined Solo, the premier banking sub-brand in 2011, resulting in the total number of Solo clients increasing to 3,728
- A winner of an American Express Global Network Services Marketing Award in the category of Outstanding Loyalty and Engagement Program for its membership Rewards Campaign

Share in the Group's revenue



BANK OF GEORGIA SOLO

BANK OF GEORGIA EXPRESS

WEALTH MANAGEMENT

Bank of Georgia's wealth management business attracts deposits from wealthy local and international clients. Wealth management principally provides private banking services by ensuring an individual approach and exclusivity in rendering banking services such as fund transfers, currency exchange or settlement operations, or while holding their savings and term deposits; wealth management involves providing wealth and asset management services to the same individuals through different investment opportunities and specifically designed investment products. Wealth management clients include institutions, retail clients and high net-worth individuals from more than 50 countries. In line with the Bank's strategy of expanding the sale of wealth management deposit products and services internationally, the Bank has set up subsidiary companies in Tel Aviv and London, which provide information services to wealth management clients.

INSURANCE AND HEALTHCARE

Through its wholly-owned insurance subsidiary, ABCI, the Group is one of the leading providers of life and non-life insurance products in Georgia, with a market share of 16% of the life and 17% of the non-life insurance markets as of 30 September 2011 (based on gross written premiums). ABCI provides a wide range of corporate and consumer insurance and related products in the following areas: property and casualty; liability, including general third party liability, motor third party liability, carriers liability, professional indemnity, bankers blanket bond, product liability and employer liability; personal risks, including health insurance, personal accident, travel and term life insurance; and performance bonds and guarantees, among others. In addition, ABCI owns and operates outpatient clinics, healthcare centres and a hospital in Georgia. The Group intends to continue the vertical integration of its insurance and healthcare businesses to up-sell insurance products, with the goal of eventually capturing a majority of healthcare spending in Georgia.

AFFORDABLE HOUSING

Through its wholly-owned subsidiary, SBRE, the Group holds a land bank, which includes real estate property the Group has acquired through loan work-outs and repossessions during the recent financial crisis. SBRE plans to develop this land bank as affordable housing, including the development and sale or leasing of up to 2,000 flats within the next three to four years, primarily in Tbilisi, to improve the liquidity of the repossessed real estate assets, to support its strategic retail mortgage lending business and to capitalise on the current unsatisfied demand for affordable housing in Tbilisi (which has depreciated housing stock and an average of 3.7 residents per property, according to Paragon LLC (a real estate consulting company in Georgia)). The Group intends to outsource the construction and architecture works and to focus on project management and sales as it believes that the Bank's well-established brand name and superior distribution channels will assist it in marketing its properties and mortgages.

DOMESTIC BROKERAGE

The Group also provides brokerage and investment banking services in Georgia through its subsidiary, BG Capital. The Group believes that its Georgian brokerage and investment banking services provide synergies with its strategic corporate banking and wealth management operations. In order for the Group to focus on its strategic businesses, the Bank's subsidiary, BG Capital has now exited from its brokerage operations in Ukraine and Belarus.

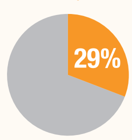
NON-CORE

The Group's non-core businesses comprise BNB, the Bank's subsidiary in Belarus and Liberty Consumer. Through BNB, the Bank's subsidiary, the Group provides retail banking and corporate banking services in Belarus. Most of the Group's other investments are held through Liberty Consumer, a Georgia-focused investment company in which the Bank holds a 65% stake. In order for the Group to focus on its strategic businesses, the Group intends to exit from its other non-core operations, including Liberty Consumer and the remaining equity interest in BG Bank and, in due course, its interest in BNB.

CORPORATE BANKING

- Increased the number of corporate clients using the Bank's payroll services from 1,737 as of 31 December 2010 to 2,387 as of 31 December 2011. As of 31 December 2011, the number of individual clients serviced through the corporate payroll programs administered by the Bank amounted to 177,321
- Number of corporate banking accounts opened increased from 1,842 in 2010 to 5,912 corporate banking accounts opened in 2011

Share in the Group's revenue

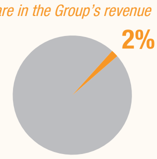


BANK OF GEORGIA CORPORATE

WEALTH MANAGEMENT

- Commitment to instantaneous service and transactions
- Approximately 1,300 wealth management clients from more than 50 countries have access to high-yield current accounts and term deposits in 19 freely convertible currencies; 24/7 service by dedicated Private Banker and remote banking by phone, internet and e-mail
- Client funds managed by WM increased by circa 4.5 times since 2008 to circa GEL 450 mln

Share in the Group's revenue



BANK OF GEORGIA WEALTH

Synergistic businesses accounted for 8% and None-Core businesses for 14% of the Group's total revenue

CONSOLIDATED RESULTS DISCUSSION

The following discussion may not contain all the information that is important to readers of this Annual Report. For a more complete understanding of the events, risks and uncertainties, as well as liquidity, market, credit and operational risks, affecting JSC Bank of Georgia and Subsidiaries (the Group), this Annual Report should be read in its entirety.

OVERVIEW

GEL thousands	**2011**	**2010**	**Change**
Net interest income	239,285	208,518	14.8%
Net fee and commission income	75,337	63,420	18.8%
Net insurance revenue	17,738	16,663	6.5%
Other operating non-interest income	108,859	58,032	87.6%
Revenue	**441,219**	**346,633**	**27.3%**
Other operating non-interest expenses	217,631	199,767	8.9%
Operating income before cost of credit risk	**223,588**	**146,866**	**52.2%**
Cost of credit risk	22,196	47,698	-53.5%
Impairment of goodwill and property & equipment	23,394	435	NMF
Net non-operating expenses	5,944	290	NMF
Income tax expense	21,125	15,776	33.9%
Profit for the year from continuing operations	**150,929**	**82,667**	**82.6%**
Net loss from discontinued operations	15,219	-	NMF
Profit for the year	**135,710**	**82,667**	**64.2%**

The Group reported a 2011 profit from continuing operations of GEL 150.9 million, or GEL 4.95 per share. The increase in profit for the year was driven by a record performance of our banking business reflecting increases in both net interest income and non-interest income items, improved asset quality and an improvement in the performance of our subsidiaries. Increased efficiency of the Bank as well as its subsidiaries contributed significantly to the consolidated profit for the year from continuing operations. The 2011 results include the GEL 15.2 million loss from discontinued operations relating to the disposal of BG Bank, Ukraine. As a result, profit for the year amounted to GEL 135.7 million, or GEL 4.44 per share and compares to the 2010 profit of GEL 82.7 million. Return on equity amounted to 20.4% in 2011, compared to 13.5% in 2010.

REVENUE

GEL thousands	**2011**	**2010**	**Change**
Loans to customers	438,989	389,402	12.7%
Investment securities held-to-maturity & available-for-sale	37,701	19,785	90.6%
Amounts due from credit institutions	18,103	9,795	84.8%
Finance lease receivables	6,565	4,159	57.9%
Interest income	**501,358**	**423,141**	**18.5%**
Amounts due to customers	167,294	114,968	45.5%
Amounts due to credit institutions	99,763	91,829	8.6%
Interest expense	**267,057**	**206,797**	**29.1%**
Net interest income before net gains (losses) from derivative financial instruments	**234,301**	**216,344**	**8.3%**
Net gains (losses) from derivative financial instruments	4,984	(7,826)	NMF
Net interest income	**239,285**	**208,518**	**14.8%**
Net fee and commission income	75,337	63,420	18.8%
Net insurance revenue	17,738	16,663	6.5%
Other operating non-interest income	108,859	58,032	87.6%
Revenue	**441,219**	**346,633**	**27.3%**

The 2011 revenue was GEL 441.2 million, an increase of GEL 94.6 million, or 27.3%, from 2010. The results were driven by an increase in interest income, due to the increase in the Group's loans to customers and finance lease receivables (net loan book) and other interest-earning assets, the record growth of amounts due to customers, net gains from derivative financial instruments and an increase in non-interest income items, which accounted for 45.8% of revenue in 2011, compared to 39.8% in 2010.

Net interest income

In 2011, the Group's interest income increased by GEL 78.2 million, or 18.5%, to GEL 501.4 million. Of that increase, GEL 49.6 million came from the increase to GEL 439.0 million in interest income on loans to customers as a result of the increase in loan balances. The increased lending activity in 2011 resulted in the growth of average gross loans to customers and finance lease receivables from GEL 2,127.2 million in 2010 to GEL 2,538.6 million in 2011. (*see Net Interest Margin table below).*

Foreign currency-denominated net loans to customers accounted for 70.4% and 76.6% of net loans to customers for the years ending 31 December 2011 and 2010, respectively. The second largest contributor to interest income growth in 2011 was interest income generated from interest earning investment securities, which grew 90.6% to GEL 37.7 million as of the year end. The increase of the interest income on interest earning securities portfolio was attributed to the increase of average amounts of interest-earning investment securities by GEL 100.8 million to GEL 362.0 million, as of the year end 2011 and the growth of average effective interest rates from 8.0% in 2010 to 10.4% in 2011. As of 31 December 2011, the Group's interest-earning investment securities comprised Georgia's Ministry of Finance treasury bills and government bonds, as well as certificates of deposits of the National Bank of Georgia (NBG).

The increases in average volumes of inter-bank deposits and the average effective interest rates of the Lari denominated inter-bank deposits from 7.4% in 2010 to 14.4% in 2011 prompted the growth of interest income from amounts due from credit institutions from GEL 9.8 million in 2010 to GEL 18.1 million in 2011.

The interest expense growth in 2011 was attributed to the strong deposit inflow in Georgia during the year, and especially in the fourth quarter 2011, as average client deposits reached GEL 2,096.6 million, an increase of 37.3% compared to the average client deposits in 2010. The currency-blended loan yields of the Group were 18.3% and 17.3% in 2010 and 2011, respectively, while currency-blended customer deposit costs were 7.5% and 8.0% during the same periods, respectively. In 2011, the increase in deposit costs was attributed to an increase in the share of the more costly Lari denominated client deposits in total client deposits for the period from 28.9% at the end of 2010 to 40.8% at the end of 2011.

2011 net interest income benefited from the net gains from derivative financial instruments of GEL 5.0 million compared to a net loss of GEL 7.8 million in 2010. Derivative financial instruments comprise interest rate swaps on borrowings from international credit institutions and, to a much lesser extent, call options on gold, oil and foreign currencies (US Dollar and Euros) wrapped into structured products (investments deposits) which are then sold on to the Group's clients. Interest rate swaps on borrowings from international credit institutions are entered into in order to hedge the Group's exposure to floating-rate interest payments due to international credit institutions. Call options are entered into in order to hedge the Group's exposure to interest payments due on clients' investment deposits linked to the prices of these commodities. The Group's gain of GEL 5.0 million (US$ 3.0 million) from its derivative financial instruments in 2011 was principally due to the devaluation of the fair value of the interest rate swap agreement with IFC, which, in turn, was caused by an increase in the floating market rates in 2011 compared to the fixed levels against which the Group hedged its floating interest rates.

As a result of the foregoing, and in particular, interest income growth driven by the healthy growth of loan book and other interest earning assets and the net gain from derivative financial instruments more than offset the growth of interest expense, driven by record growth of amounts due to customers during the year, resulting in the 14.8% growth of net interest income from 2010 to GEL 239.3 million as of the year end 2011.

Correspondingly, the 2011 Net Interest Margin (NIM) was 7.1% compared to 8.0% in 2010. The change in margin was primarily attributable to a 31.1% increase in liquid assets* in 2011, growth of interest-bearing liabilities, an increase of the share of Lari denominated client deposits in the total client deposits and a decline in the loan yields, mainly on corporate banking loans, to 14.4% in 2011 from 16.2% in 2010. The following table describes the components of NIM.

Net interest margin

GEL thousands	**2011**	**2010**	**Change**
Net Interest Margin[(a)]	**7.1%**	**8.0%**	**12.0%**
Average[(b)] loans to customers and finance lease receivables, gross	2,538,624	2,127,192	19.3%
Less: average allowance for impairment	(131,005)	(184,613)	-29.0%
Average loans to customers and finance lease receivables, net	2,407,619	1,942,579	23.9%
Average loans and advances to credit institutions[(b)]	613,195	391,763	56.5%
Average interest earning investment securities	361,989	261,167	38.6%
Average interest earning assets	**3,382,803**	**2,595,509**	**30.3%**
Average client deposits	2,096,620	1,526,794	37.3%
Average amounts due to credit institutions	1,075,449	1,076,455	-0.1%
Average promissory notes issued	120,655	3,362	NMF
Average interest bearing liabilities	**3,292,724**	**2,606,611**	**26.3%**

(a) Net interest income divided by average interest-earning assets for the period.

(b) Average disclosures and average balances used in ratios are derived from the Bank's IFRS-based management reports in 2011 and 2010 and are based on monthly averages

Net non-interest income: net fee and commission income, net insurance revenue and other operating non-interest income

The overall improvement in the economic environment in Georgia and the increased business activity drove the growth in the non-interest revenue items in 2011.

Net fee and commission income increased by 18.8% to GEL 75.3 million in line with the increases in sales of the Bank's fee generating products and services such as commission income from settlement operations, guarantees, letters of credit, cash collections, currency conversion operations, fees from brokerage, fees from advisory services and other fees. *(see more on Net fee and commission income in Note 23 of this Annual Report).*

** Liquid assets include: cash and cash equivalents, amounts due from credit institutions, investment securities held-to-maturity and investment securities available-for-sale (but excluding equity instruments)*

Net insurance revenue

GEL thousands	2011	2010	Change
Gross insurance premiums written	**56,441**	**56,306**	**0.2%**
Gross insurance premiums earned	56,658	55,401	2.3%
Reinsurers' share in gross insurance premiums earned	10,262	10,840	-5.3%
Net insurance premiums earned	**46,396**	**44,561**	**4.1%**
Gross insurance claims paid	31,315	29,765	5.2%
Net insurance claims incurred	28,658	27,898	2.7%
Net insurance revenue	**17,738**	**16,663**	**6.5%**

Reflecting the continued growth of the insurance business and improvements in claims management, net insurance revenue reached GEL 17.7 million, an increase of 6.5% from 2010. Net insurance revenue principally comprises non-life insurance contracts, predominantly health and general insurance contracts. *(see more on Net insurance revenue in Note 24 of this Annual Report).*

Other operating non-interest income

GEL thousands	2011	2010	Change
Net gains from foreign currencies, of which:	76,441	33,749	126.5%
- Dealing	45,694	33,651	35.8%
- Translation differences	30,747	98	NMF
Net gains from revaluation of investment properties	1,984	350	NMF
Net gains trading securities and investment securities available-for-sale	1,382	2,006	-31.1%
Other operating income	29,052	21,927	32.5%
Other operating non-interest income	**108,859**	**58,032**	**87.6%**

The increase in other operating non-interest income from GEL 58.0 million in 2010 to GEL 108.9 million in 2011 was mostly a result of the increased gains from foreign currency transactions in line with the pick-up in the overall business activity. The increase of commissions (foreign currency dealing gains) earned by the Group from currency exchange transactions was driven by the growth of volume of foreign currency transactions, mostly on behalf of clients. The GEL 30.7 million net gains from foreign currency translation differences was mostly attributed to the GEL 25.1 million net gains from the Belarusian Ruble (BYR) currency hedge that the Bank entered into for its investment in BNB. Depreciation of the Belarusian Ruble against Lari caused a decline in the Lari equivalent value of BNB's standalone shareholders' equity, the loss from which is recognized through the other comprehensive income statement of the Group.

In 2011, the Group decreased its available-for-sale investment securities portfolio, comprised of investments by Liberty Consumer and ABCI in selected Georgian corporate shares, which resulted in the decrease of net gains from trading securities and investment securities available-for-sale from GEL 2.0 million in 2010 to GEL 1.4 million in 2011.

The economic recovery that started in 2009 and the continuing growth trend of the Georgian economy resulted in GEL 2.0 million net gains from the revaluation of the Bank's investment properties. (*see more on Net gains from revaluation of investment properties in Note 13 of this Annual Report*).

Other operating income comprises other banking operations, such as commissions from cash collection services, revenues from credit card data processing services, insurance commissions, non-recurring gains from disposal of repossessed assets, revenues of non-core subsidiaries held by Liberty Consumer, revenue from synergistic healthcare business of ABCI and revenue of SBRE.

Other operating income growth was predominantly driven by the increase in healthcare revenues as part of the Group's insurance business and by an increase in revenues generated by the Group's non-core subsidiaries, predominantly through Liberty Consumer. The net effect of the GEL 25.1 million gain related to the BYR hedge resulted in an increase of other operating non-interest income to GEL 108.9 million in 2011, while other operating non-interest income, excluding the foreign currency gains from the BYR hedge, increased by 44.3% y-o-y to GEL 83.8 million in 2011. *(see more on Net gains from foreign currency translation differences in Note 25 of this Annual Report).*

Other operating non-interest expenses

GEL thousands	2011	2010	Change
Salaries and other employee benefits	119,111	104,551	13.9%
General and administrative expenses	61,942	61,000	1.5%
Depreciation, amortization and impairment	27,254	27,963	-2.5%
Other operating expenses	9,324	6,253	49.1%
Other operating non-interest expenses	**217,631**	**199,767**	**8.9%**

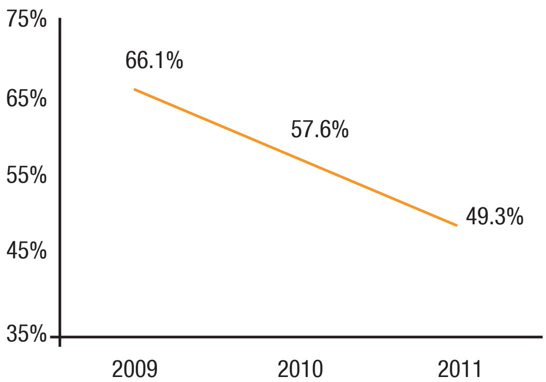
In 2011, the Bank's other operating non-interest expenses increased by GEL 17.9 million, or 8.9% to GEL 217.6 million. The increase was primarily due to the increase in salaries and other employee benefits as the Bank's headcount and the bonus pool increased to reflect the growth of the Group's business during 2011.

General and administrative expenses for the year grew moderately by 1.5% to GEL 61.9 million, reflecting the cost efficiency measures undertaken by the Group and the effect of the disposal of BG Bank in the beginning of 2011.

Other operating expenses, mostly comprised of operating expenses incurred by the Group's synergistic business lines such as ABCI's healthcare and insurance businesses and SBRE, as well as other operating expenses incurred by the Group's non-core subsidiaries, grew by 49.1% to GEL 9.3 million in 2011. The growth was mostly attributable to the increase of ABCI's healthcare operating expenses and other operating expenses incurred by the non-core subsidiaries, predominantly through Liberty Consumer. *(see more on Other operating non-interest expenses in Notes 14, 15 and 26 of this Annual Report).*

As the Group's revenue grew by 27.3%, or three times faster than the Group's operating expenses (up 8.9%), the resulting positive operating leverage translated into the improved Cost to Income Ratio of the Group, which was reduced to 49.3% in 2011 from 57.6% in 2010. Operating income before cost of credit risk increased by 52.2% to GEL 223.6 million in 2011.

Cost to Income Ratio [a]



[a] Cost is defined as other operating non-interest expenses

Cost of credit risk

GEL thousands	2011	2010	Change
Operating income before cost of credit risk	**223,588**	**146,866**	**52.2%**
Impairment charge on loans to customers	23,216	49,886	-53.5%
Impairment charge (reversal) on finance lease receivables	317	(5,775)	-105.5%
Impairment charge (reversal) on other assets and provisions	(1,337)	3,587	-137.3%
Cost of credit risk	**22,196**	**47,698**	**-53.5%**
Net operating income	**201,392**	**99,168**	**103.1%**

The cost of credit risk decreased by GEL 25.5 million, or 53.5%, to GEL 22.2 million in 2011, a result of improvements in the economy generally reflected in the improvement of the Group's loan book quality and the disposal of BG Bank in the beginning of 2011.

The decline in the impairment charge on loans to customers from GEL 49.9 million in 2010 to GEL 23.2 million in 2011 was the main driver of the improvement of the cost of credit risk in 2011. The GEL 22.3 million loan impairment charge was attributed to the Group's loan book in Georgia, a decline from the GEL 39.1 million loan impairment charge on the Georgian loan book in 2010. In 2011, GEL 1.4 million related to the loan book of BNB, compared to a GEL 0.4 million impairment charge on the BNB loan book in 2010. In 2010, the loan impairment charge of GEL 9.7 million was attributed to the Group's loan book in BG Bank Ukraine (while nil in 2011).

The allowance for impairment was GEL 115.1 million or 4.2% of total gross loans to customers and finance lease receivables as of 31 December 2011, compared to 6.9% as of same date previous year.

The Group's impairment charge on finance lease receivables amounted to GEL 0.3 million in 2011 compared to the reversal of impairment on finance lease receivable of GEL 5.8 million in 2010.

As a result of the improvement in the cost of credit risk, the Group's net operating income increased by GEL 102.2 million (or 103.1%) to GEL 201.4 million in 2011. *(see more on Cost of credit risk in Notes 9, 10 and 17 of this Annual Report).*

Impairment of goodwill and net non-operating expenses

GEL thousands	2011	2010
Impairment of goodwill and property & equipment	**23,394**	**435**
Gain from hyperinflation	(5,169)	-
Share of loss (profit) of associates	487	(255)
Other non-operating expenses	13,529	816
Other non-operating income	(2,903)	(271)
Net non-operating (expenses)	**5,944**	**290**

The 2011 impairment of goodwill charge of GEL 23.4 million reflected the BNB goodwill impairment. As a result, the goodwill associated with BNB was fully written-off as of 31 December 2011. *(see more on Impairment charge on goodwill in Note 15 of this Annual Report).*

The net non-operating expenses of GEL 5.9 million in 2011 were primarily attributed to the increase in other non-operating expenses to GEL 13.5 million, which more than offset a GEL 5.2 million gain from hyperinflation and GEL 2.9 million other non-operating income. Other non-operating expenses mostly comprised of GEL 6.4 million of losses incurred from Eurobond buy-backs during the year and GEL 6.7 million non-operating expenses associated with the tender offer process relating to the listing of the newly UK-incorporated holding company on the premium segment of the London Stock Exchange, completed in February 2012. *(see more on premium listing and the tender offer process in Notes 28 and 36 of this Annual Report).*

Since the Belarusian economy has been considered as hyperinflationary as of 1 January 2011, the effect of inflation on the Group's non-monetary position resulted in a gain of GEL 5.2 million in 2011. *(see more on Gain from hyperinflation in Note 27 of this Annual Report).*

The Group's share of loss of associates, where the Bank owned more than 20% but less than or equal to 50% equity interest, resulted in the total share of loss of GEL 0.5 million in 2011 compared to the share of profit of associates of GEL 0.3 million in 2010. *(see more on Share of profit (loss) of associates in Note 12 of this Annual Report).*

Profit for the year

GEL thousands	**2011**	**2010**	**Change**
Profit before income tax expense from continuing operations	**172,054**	**98,443**	**74.8%**
Income tax expense	21,125	15,776	33.9%
Profit for the year from continuing operations	**150,929**	**82,667**	**82.6%**
Net loss from discontinued operations	15,219	-	NMF
Profit for the year	**135,710**	**82,667**	**64.2%**

As a result of the foregoing, the Group generated profit before income tax expense from continuing operations of GEL 172.1 million in 2011, compared to GEL 98.4 million in 2010. The 2011 income tax expense, mostly attributable to pre-tax income principally generated in Georgia, amounted to GEL 21.1 million, resulting in 2011 profit for the year from continuing operations of GEL 150.9 million.

In 2011, the Bank incurred a net loss from discontinued operations of GEL 15.2 million, following the disposal of its 80% equity interest in BG Bank, Ukrainian subsidiary, as announced in February 2011. The total consideration including brokerage fees paid to BG Capital, the Bank's 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 of the date of this Annual Report. *(see more on Net loss from discontinued operations in Note 29 of this Annual Report).*

SEGMENT RESULTS

STRATEGIC SEGMENT DISCUSSION

The overall results benefited from the revenue growth of each of the Group's strategic businesses. The following discussion summarises the Group's income statement segment information. Amounts exclude intercompany eliminations, so the totals do not add to the consolidated totals. *(see more on Segment results in Note 6 of this Annual Report).*

RETAIL BANKING

GEL thousands	**2011**	**2010**	**Change**
Net interest income	141,476	116,378	21.6%
Net fee and commission income	49,769	42,141	18.1%
Net gains from foreign currencies	12,213	9,211	32.6%
Other operating non-interest income	5,990	1,184	NMF
Operating income from other segments	1,597	527	NMF
Revenue	**211,045**	**169,441**	**24.6%**
Impairment (charge) reversal on interest earning assets	3,107	(29,073)	NMF
Profit for the year	**110,366**	**39,952**	**176.2%**

Retail banking posted strong results due to the significant growth of retail lending in Georgia. Loans granted to individuals increased by GEL 126.7 million, or 12.6% y-o-y, to GEL 1,132.7 million as of 31 December 2011, driving the 21.6% increase in net interest income to GEL 141.5 million. The Group collected higher commission on increased banking transactions by individuals translating into an 18.1% increase in net fee and commission income to GEL 49.8 million. Higher volumes on foreign currency transactions resulted in net gains from foreign currencies of GEL 12.2 million, up 32.6% y-o-y. Other operating non-interest income, reflecting the increase of other operating income earned by retail banking and the Group's card processing operations, grew by GEL 4.8 million to GEL 6.0 million in 2011. The impairment reversal of GEL 3.1 million in 2011 compares to an impairment charge of GEL 29.1 million 2010, resulting in a retail banking segment profit of GEL 110.4 million for the period as compared to GEL 40.0 million in 2010.

CORPORATE BANKING

GEL thousands	**2011**	**2010**	**Change**
Net interest income	72,823	74,756	-2.6%
Net fee and commission income	20,346	16,604	22.5%
Net gains from foreign currencies	29,018	21,387	35.7%
Other operating non-interest income	6,609	(2,130)	NMF
Operating income from other segments	6,644	12,484	-46.8%
Revenue	**135,440**	**123,101**	**10.0%**
Impairment (charge) reversal on interest earning assets	(25,576)	(12,801)	99.8%
Profit for the year	**60,106**	**68,740**	**-12.6%**

In 2011, the decline in the corporate banking profit for the year was mostly attributed to the increase in impairment charge on corporate banking interest earning assets due to the lower off-balance corporate banking loan recoveries in 2011 compared to 2010 as well as due to growth of the corporate banking loan book.

The 2.6% decline in corporate banking net interest income was predominantly attributable to the strong Lari denominated corporate deposits inflow, especially in the fourth quarter of 2011. As a result, share of the more costly Lari denominated corporate banking client deposits in total client deposits increased significantly, from 22.2% in 2010 to 32.9% in 2011. In 2011, the corporate banking deposit cost was 7.1%, an increase from 5.6% in 2010.

Increased commissions on banking transactions and the higher volumes of foreign currency conversions by the Group's corporate clients drove net fee and commission income up by 22.5% to GEL 20.3 million and net gains from foreign currencies up by 35.7% to GEL 29.0 million. The strong increase in net fee and commission income and net gains from foreign currencies, more than offset the decline in net interest income and operating income from other segments, driving the 10.0% growth of revenue to GEL 135.4 million in 2011.

WEALTH MANAGEMENT

GEL thousands	**2011**	**2010**	**Change**
Net interest income	5,879	3,053	92.6%
Net fee and commission income	652	499	30.7%
Net gains from foreign currencies	706	642	10.0%
Other operating non-interest income	120	(53)	NMF
Revenue	**7,357**	**4,141**	**77.7%**
Impairment (charge) reversal on interest earning assets	51	2,632	-98.1%
Profit for the year	**3,616**	**2,028**	**78.3%**

In 2011, wealth management revenue grew by 77.7% primarily as a result of a 92.6% increase in the net interest income to GEL 5.9 million, reflecting an improved operating performance of the wealth management business. The growth of net fee and commission income, in line with the overall increase of banking transactions, also contributed to the wealth management revenue growth. Profit for the period of the wealth management business reached GEL 3.6 million, an increase of 78.3% from 2010.

Synergistic segment discussion

In 2011, the revenue from synergistic business totalled GEL 34.2 million, an increase from GEL 26.1 million in 2010. The growth was predominantly driven by the increase of insurance and healthcare business revenue by GEL 9.6 million in 2011. The Bank's synergistic business accounted for 7.8% of total revenue, compared to 7.5% in 2010.

INSURANCE AND HEALTHCARE

GEL thousands	**2011**	**2010**	**Change**
Gross premiums written	**56,441**	**56,306**	**0.2%**
Net insurance revenue	17,738	16,663	6.5%
Net interest income	1,562	700	123.1%
Net (losses) gains from foreign currencies	(779)	267	NMF
Other operating non-interest income	11,952	3,268	NMF
Revenue	**30,473**	**20,898**	**45.8%**
Profit for the year	**7,263**	**5,568**	**30.4%**

In 2011, insurance and healthcare revenue growth of 45.8% to GEL 30.5 million reflects the 6.5% growth of net insurance revenue to GEL 17.7 million and the other operating non-interest income from GEL 3.3 million in 2010 to GEL 12.0 million in 2011. The net insurance revenue increase was a result of both the growth of gross premiums written and the improvements in the claims management by ABCI. The increase of other operating non-interest income was predominantly attributed to the non-interest income generated by the healthcare business, which reached GEL 10.7 million in 2011 up from GEL 2.6 million healthcare revenue generated in 2010.

In addition to insurance and healthcare, the Group's synergistic businesses are affordable housing, represented by the SBRE, the Bank's wholly-owned subsidiary and domestic brokerage through BG Capital, the brokerage subsidiary. In 2011, the revenue from SBRE and BG Capital operations totalled GEL 3.7 million, accounting for 0.8% of the Bank's revenue for the period, compared to 1.5% in 2010, when the aggregate revenue of SBRE and BG Capital totalled GEL 5.2 million. Such decline is largely attributed to the closure of the Ukrainian operations of BG Capital due to the deteriorating economic environment and the Bank's strategy to discontinue its activity in Ukraine. *(see more on Synergistic segment results in Note 6 of this Annual Report).*

Non-Core segment discussion

The Group's non-core business in 2011 predominantly comprised of BNB, the banking subsidiary in Belarus and Liberty Consumer, a Georgia-focused investment company through which the Bank owns a portfolio of investments in Georgian businesses. The increase in the contribution of the revenue from the non-core business to the Group's total revenue from 10.0% in 2010 to 13.7% in 2011, was a result of the increase in the revenue of BNB, mostly due to the increase in the net gains from the Belarusian Ruble currency hedge, as described above. *(see more on Non-core segment results in Note 6 of this Annual Report).*

BALANCE SHEET OVERVIEW

GEL thousands	2011	2010	Change
Cash and cash equivalents	628,731	611,584	2.8%
Amounts due from credit institutions	289,530	116,469	148.6%
Investment securities	419,576	294,961	42.2%
Loans to customers, gross [(a)]	2,731,498	2,542,240	7.4%
Less allowance for impairment [(b)]	(115,137)	(176,124)	-34.6%
Loans to customers, net	**2,616,361**	**2,366,116**	**10.6%**
Investments in associates	3,014	5,633	-46.5%
Investment properties	101,686	113,496	-10.4%
Property and equipment	348,110	285,852	21.8%
Goodwill	46,195	69,212	-33.3%
Other intangible assets	21,222	22,390	-5.2%
Income tax assets	23,339	20,425	14.3%
Prepayments	29,929	23,364	28.1%
Other assets	137,568	75,420	82.4%
Total assets	**4,665,261**	**4,004,922**	**16.5%**
Amounts due to customers [(c)]	2,735,222	2,026,308	35.0%
Amounts due to credit institutions	921,172	1,138,927	-19.1%
Income tax liabilities	37,416	35,152	6.4%
Provisions	386	4,407	-91.2%
Other liabilities	158,462	106,787	48.4%
Total liabilities	**3,852,658**	**3,311,581**	**16.3%**
Share capital	32,878	31,345	4.9%
Additional paid-in capital	473,732	477,285	-0.7%
Treasury shares	(3,146)	(1,510)	108.3%
Other reserves	14,478	26,816	-46.0%
Retained earnings	254,588	130,314	95.4%
Total equity attributable to shareholders	772,530	664,250	16.3%
Non-controlling interests	40,073	29,091	37.8%
Total equity	812,603	693,341	17.2%
Total liabilities and equity	**4,665,261**	**4,004,922**	**16.5%**

(a) Gross loans to customers include gross finance lease receivables. In 2011 and 2010, gross loans to customers totalled GEL 2,668,139 thousand and GEL 2,527,233 thousand respectively. Gross finance lease receivables totalled GEL 63,359 thousand and GEL 15,007 thousand in 2011 and 2010, respectively.

(b) Allowance for loan impairment totaled GEL 114,697 thousand and GEL 175,536 thousand in 2011 and 2010, respectively. Allowance for impairment on finance lease receivables amounted to GEL 440 thousand and GEL 588 thousand in 2011 and 2010, respectively.

(c) Amounts due to customers include promissory notes of GEL 181,138 thousand and GEL 21,610 thousand in 2011 and 2010, respectively.

The Group's consolidated assets and liabilities increased by 16.5% from 31 December 2010, largely due to a significant level of deposit inflows from both individual and corporate clients. The high level of inflows during the year, and in the fourth quarter in particular, contributed to the increase in loans to customers, amounts due from credit institutions and investment securities. The increase in total liabilities was driven by the increase in client deposits, which in part replaced more expensive borrowings from international finance institutions and other lenders, as the main source of funding in 2011. The increase in shareholders' equity reflected the 2011 net income.

The significant deposit inflow during the year led to the strengthening of the Balance Sheet as Net Loans to Client Deposits ratio improved to 102.4% as of 31 December 2011 compared to 118.0% as of 31 December 2010.

The Bank continues to maintain a strong liquidity position, considerably in excess of the regulatory requirements. The liquidity ratio, as per the NBG requirement, stood at 37.8% against the required minimum of 30%, while liquid assets accounted for 28.4% of total assets and 34.8% of total liabilities as of the end of 2011. Cash and cash equivalents accounted for 13.5% of the total assets as of 31 December 2011.

The following discussion provides description of line items with significant change from 31 December 2010. For more information please see the respective Notes of this Annual Report.

LOANS TO CUSTOMERS AND ALLOWANCE FOR LOAN IMPAIRMENT

In 2011, gross loans to customers, predominantly comprised of the loans issued in Georgia, grew to GEL 2,668.1 million from GEL 2,527.2 million in 2010, when the financial position included BG Bank's loan book. The growth of the gross loan book was largely driven by growth in loans to individuals, which grew by GEL 126.7 million, or 12.6%, from 2010.

As approximately 70.2% of gross loans to customers were denominated in foreign currency (mainly US Dollars) as of 31 December 2011, the GEL/US$ exchange rate fluctuation causes changes in the value of gross loans to customers. Reflecting the Lari appreciation by 6.1% against US dollar between 2011 and 2010, net loans to customers in US dollar terms, increased by 15.3%, or by US$ 202.6 million, to US$ 1,529.0 million as of 31 December 2011.

Loans to customers

GEL thousands	2011	2010	Change
Private companies	1,492,124	1,488,577	0.2%
Individuals	1,132,740	1,006,046	12.6%
State-owned entities	43,275	32,610	32.7%
Loans to customers, gross	**2,668,139**	**2,527,233**	**5.6%**
Less – Allowance for loan impairment	(114,697)	(175,536)	-34.7%
Loans to customers, net	**2,553,442**	**2,351,697**	**8.6%**

In addition to loans granted to individuals that accounted for 42.5% of the gross loan book, the Bank maintained a diversified loan book across various sectors of the economy, including trade and services, construction and development, mining, transport and communication, energy and agriculture. As of 31 December 2011, ten largest borrowers accounted for 15.1% of the gross loan book, the same level as of 31 December 2010.

Improvements in the economic environment were reflected in the asset quality of the Bank, and allowance for loan impairment declined by GEL 60.8 million to GEL 114.7 million in 2011. The allowance for loan impairment represented 4.3% of gross loans in 2011, comparing favorably to the allowance for the loan impairment to gross loans ratio of 6.9% in 2010.

The Bank's loan book remains highly collateralized, with 87% of the total volume of gross loans to clients secured by mostly property, inventory and trade receivables for commercial lending and by mortgages over residential properties for individual lending.

As a result of the gross loan book growth, improved asset quality and the disposal of BG Bank in 2011, the Bank's net loans to customers grew by GEL 201.7 million, or 8.6%, to GEL 2,553.4 million in 2011.

AMOUNTS DUE FROM CREDIT INSTITUTIONS

The amounts due from credit institutions grew to GEL 289.5 million from GEL 116.5 million in 2010. The growth was primarily due to an increase in obligatory reserves with the NBG and the National Bank of the Republic of Belarus (NBRB) from GEL 90.4 million in 2010 to GEL 270.3 million in 2011. The growth is in line with the strong inflow of deposits during the year, as the Bank is required to maintain obligatory cash deposits with the NBG and NBRB, the amount of which depends on the level of funds attracted.

Amounts due to credit institutions at 31 December 2011 also consisted of GEL 14.3 million inter-bank time deposits with effective maturity of more than 90 days placed with internationally recognized OECD banks and an inter-bank loan receivable of GEL 4.9 million.

INVESTMENT SECURITIES

In 2011, the Bank's investment securities available-for-sale grew to GEL 419.6 million from GEL 295.0 million in 2010. As of 31 December 2011, investment securities mostly comprised of certificates of deposits of the NBG, Georgian Ministry of Finance treasury bonds and bills, and to a lesser extent, corporate shares and corporate bonds. The growth of investment securities was primarily a result of the purchase of certificates of deposit of the NBG, which increased to GEL 199.1 million in 2011, up from GEL 105.0 million in 2010. Georgia's Ministry of Finance treasury bills amounted to GEL 120.3 million, up from GEL 52.1 million in 2010, while the Ministry of Finance treasury bonds declined from GEL 128.5 million to GEL 88.7 million. Corporate shares of GEL 11.5 million primarily reflect the remaining 19.4% investment in PJSC Bank Pershyi, Ukraine (formerly called BG Bank) and other equity investments of Liberty Consumer and ABCI.

OTHER BALANCE SHEET ITEMS

The decline in the Bank's investments in associates by GEL 5.6 million to GEL 3.0 million in 2011 was due to the write-offs and disposals of certain investments by Liberty Consumer, in line with the Bank's strategy to reduce its non-core businesses. (*see more on Investments in associates in the Note 12 of this Annual Report*).

The decline of goodwill from GEL 69.2 million in 2010 to GEL 46.2 million in 2011 reflected the goodwill write-off of BNB. The increase in property and equipment was mostly due to business combinations with the Block Georgia group of entities, following its merger with My Family Clinic, ABCI's healthcare subsidiary. The renovation of the new headquarters of the Bank also contributed to the increase in property and equipment to GEL 348.1 million. The increase in income tax assets was caused by the tax benefits recognised by the Bank's non-banking subsidiaries on their respective pre-tax losses. The increase in other assets was predominantly driven by the growth in derivative financial assets recognised from the BYR currency hedge and by the increase in inventories of the merged healthcare business as well as the growth of insurance premiums and healthcare receivables.

AMOUNTS DUE TO CUSTOMERS

In 2011, the Bank's total liabilities grew by 16.3% to GEL 3,852.7 million, mostly driven by the strong deposit inflow during the year. Amounts due to customers, or client deposits, grew 35.0% to a record level of GEL 2,735.2 million, reflecting the improved economic environment in Georgia. The increase in client deposits by GEL 708.9 million during the year was driven by an increase in deposits from private enterprises by GEL 326.8 million to GEL 1,290.9 million; deposits from individuals by GEL 162.5 million to GEL 1,056.9 million and deposits from state and budget organisations by GEL 219.6 million to GEL 387.5 million. The increase in time deposits accounted for 29.2% of the client deposit growth, while 48.3% growth was due to an increase in current accounts. Lari denominated client deposits accounted for 40.8% of total client deposits, up from 28.9% in 2010.

As of 31 December 2011, the Bank's promissory notes issued totalled GEL 181.1 million, a GEL 159.5 million increase since 2010. The promissory notes are effective equivalents of certificates of deposits with fixed maturity and fixed interest rate privately held by financial institutions.

As of 31 December 2011, the ten largest customers accounted for 21.2% (or GEL 580.7 million), of amounts due to customers, up from 17.9% in 2010.

As a result of the strong deposit inflow during the year, amounts due to customers accounted for 71.0% of total liabilities as of 31 December 2011, compared to 61.2% as of 31 December 2010.

AMOUNTS DUE TO CREDIT INSTITUTIONS

The healthy deposit growth allowed the Bank to decrease its reliance on more expensive borrowings from international credit institutions, which declined from GEL 1,003.9 million in 2010 to GEL 863.0 million in 2011. The decline in time deposits and inter-bank loans from GEL 130.3 million to GEL 42.8 million also contributed to the 19.1%, or GEL 217.8 million, decrease in amounts due to credit institutions to GEL 921.2 million as of 31 December 2011.

The increase in other liabilities to GEL 158.5 million in 2011 from GEL 106.8 million in 2010 was due to the increase in accruals for employee compensation and the rise of accounts payable, insurance related liabilities, accruals and deferred income.

EQUITY

As of 31 December 2011, authorised share capital totalled 43,308,125 shares, of which 32,877,547 were ordinary shares issued and fully paid compared to 31,344,860 ordinary shares issued and fully paid as of 31 December 2010.

Regulatory Capital and Capital Adequacy BIS

GEL thousands	**2011**	**2010**
Ordinary shares	32,878	31,345
Share premium	473,732	477,285
Retained earnings	257,767	129,341
Tier I capital	**764,377**	**637,971**
General loan loss provisions	47,993	45,666
Revaluation reserves	14,478	26,816
Subordinated debt	317,301	332,306
Tier II capital	**380,301**	**404,788**
Deductions from capital	(49,341)	(70,722)
Total capital	**1,095,337**	**972,037**
Risk-weighted assets	3,839,462	3,653,247
Tier I capital adequacy ratio	**19.9%**	**17.5%**
Total capital adequacy ratio	**28.5%**	**26.6%**

Bank of Georgia ended the year with a strong capital position based on Tier I and Total Capital ratios (BIS). The increase in total capital from 2010 was largely attributable to the increase of Tier I Capital to GEL 764.4 million, driven by the growth of retained earnings for the period. The decrease in Tier II Capital in 2011 was mostly due to decline in revaluation reserves by GEL 12.3 million and decrease in subordinated debt by GEL 14.5 million.

Risk-weighted assets grew by 25.1% to GEL 3,839.5 million as of the year end 2011, a result of the increase in interest-earning assets during the year.

NBG requires capital adequacy calculation based on the NBG methodology, which is done on a standalone basis. Based on the NBG calculation method, Bank of Georgia's Tier I and Total Capital Ratios as of 31 December 2011 were at 10.5%, and 16.2%, respectively, and above the statutory minimum of 8% for Tier I and 12% for Total Capital. In 2010, Tier I and Total Capital, respectively, based on the NBG methodology, were 13.0% and 14.5%.

SHAREHOLDERS

End of period	**2011**	**2010**	**Change**
Bank of New York Mellon (Nominees), Limited	91.5%	90.5%	88.9%
East Capital Financial Institutions	4.2%	4.4%	4.4%
Others (less than 4% individually)	4.4%	5.1%	6.8%
Total	**100.0%**	**100.0%**	**100.0%**

As of 31 December 2011, the members of the Supervisory Board and Management Board owned 474,246 shares and Global Depositary Receipts (GDRs) of Bank of Georgia. In addition, the members of the Supervisory Board and Management Board and employees were awarded 143,500, 1,290,711 and 463,912 GDRs in 2011, 2010 and 2009, respectively. The following table depicts the interest of the members of the Supervisory Board and Management Board as of 31 December 2011, 2010 and 2009.

Shares and GDRs held by the members of Supervisory Board and Management Board

End of period	**2011**	**2010**	**2009**
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**

SUBSEQUENT EVENTS

On 8 February 2012, the Group repaid the Loan Participation Notes[1] with a par value of US$55.5 million on a maturity date. The Bank had repurchased notes totaling US$144.5 million prior to the maturity date. As a result, the US$200 million Loan Participation Notes due 2012 (ISIN: XS0283756624) were redeemed in full. The average liquidity ratio of the Bank for February 2012, in accordance with the NBG liquidity regulation, totalled 38.2% as compared to the required minimum of 30%.

On 24 February 2012, the EBRD and IFC, a member of the World Bank Group, converted part of their respective convertible loans[2] into Bank shares and accepted the tender offer announced by BGH. The 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, the Tier 1 and Total Capital adequacy ratios of the Bank, in accordance with NBG regulation, totaled 15.3% and 17.9% as of 29 February 2012, respectively.

In February 2012, BGH became a UK-incorporated holding company of the Group following the successful completion of a tender offer to acquire the entire issued and to be issued share capital, including GDRs[3] made to Bank of Georgia's shareholders, which was launched on 20 December 2011. Valid acceptances for the offer were received from 98.35% of Bank of Georgia shareholders and the tender offer was declared unconditional.

On 28 February 2012, 35,909,383 BGH shares were admitted to trading on the premium segment of the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange under the ticker BGEO.LN.

On 8 March 2012, BGH announced that the Bank intends to terminate the GDR programme and delist all outstanding GDRs. Such termination and de-listing is expected to occur on 6 June 2012.

On 5 February 2012, the Bank was assigned 'ilA' Standard & Poor's Maalot (Israel) National Scale Rating. Ratings above 'ilA-' are considered investment grade ratings in Israel, and are generally required by local institutional investors for potential investments.

[1] US$200 million 9% loan participation notes due 2012 issued by BG Finance B.V. (BG Finance) for the sole purpose of funding a loan to the Bank pursuant to a loan agreement dated 6 February 2007 between BG Finance and the Bank were redeemed in full on their maturity date.

[2] The convertible subordinated loans of US$26.04 million each from EBRD and IFC are part of US$200 million 10 year financing package received by the Bank from EBRD and IFC in December 2008, as announced on 31 December 2008. Under the terms of the convertible subordinated loans, the option for the debt conversion would have expired in December 2013. The interest rate which would have been payable by the Bank on the principal amount of the convertible subordinated loans being converted pursuant to the Conversion Option is 6 month LIBOR plus 8% per annum.

[3] JSC Bank of Georgia shares have been listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs) since November 2006.

PRINCIPAL RISKS AND UNCERTAINTIES

The following discussion sets forth certain risks and uncertainties that the Group believes are material. If any of the following risks actually occur, the Group's business, financial condition, results of operations or prospects could be materially affected. The risks and uncertainties described below may not be the only ones the Group faces. Additional risks and uncertainties, including those that the Group is currently not aware of or deems immaterial, may also result in decreased revenues, incurred expenses or other events that could result in a decline in the value of the Group's securities.

MACROECONOMIC RISKS AND POLITICAL RISKS RELATED TO GEORGIA

Difficult global economic conditions have had, and may continue to have, an adverse effect on the Group

Although the Group conducts its operations mainly in Georgia, where most of its clients and assets are located, the Group's business and performance are affected by global macroeconomic and market conditions. In 2008, the global economy entered the most severe downturn in 80 years, with the financial services industry facing unprecedented turmoil. A shortage of liquidity, limited funding opportunities, pressure on capital, deteriorating asset quality and significant price volatility across a wide range of asset classes put financial institutions under considerable pressure. Many developed economies entered into recession and growth slowed in many emerging economies, including Georgia.

The financial crisis was accompanied by a number of related developments, including an erosion of trust in financial institutions, increased currency volatility, increased counter-party risk and the risk of systemic failures. Such circumstances have caused disruptions in financial markets worldwide, leading to liquidity and funding difficulties in the international banking system. Access to capital, the credit markets, FDI and other forms of liquidity have been significantly impaired, with the cost of financing for financial institutions increasing considerably. As a result, the costs of borrowing in the wholesale debt markets increased for the Group, the debt capital markets were (and to some extent, still are) effectively closed to banks in emerging markets (such as the Bank) and certain international financial institutions (being financial institutions established (or chartered) by more than one country which are subject to international law and whose owners or shareholders are generally national governments, including, among others, the EBRD and the IFC, became the principal sources of long-term funding for the Group. The financial crisis has also had a significant adverse effect on the valuation of assets and the capital position of many financial institutions globally.

Although global markets showed signs of improvement in 2010 and in 2011, new negative developments, such as Standard & Poor's cutting the long-term US credit rating by one notch to AA+ on 5 August 2011 and the fiscal crises or potential fiscal crises in certain EU member states, particularly Greece, Spain, Ireland, Italy and Portugal, have emerged, and other countries may face such crises in the future. These developments have created an unfavourable environment for the banking sector as a whole and could have an adverse effect on the Group.

Regional tensions could have an adverse effect on the local economy and the Group

Georgia, which is bordered by Russia, Azerbaijan, Armenia and Turkey, could be affected by political unrest within its borders and in surrounding countries. In particular, Georgia has had ongoing disputes in Abkhazia, the Tskhinvali Region/South Ossetia and with Russia since the restoration of its independence. These disputes have led to sporadic violence and breaches of peace-keeping operations. Most recently, in August 2008, the conflict in the Tskhinvali Region/South Ossetia escalated as Georgian troops engaged with local militias and Russian forces that crossed the international border, and Georgia declared a state of war (2008 Conflict). Although Georgia and Russia signed a French-brokered ceasefire that called for the withdrawal of Russian forces later that month, Russian troops continue to occupy Abkhazia and the Tskhinvali Region/South Ossetia and tensions continue. Russia has indicated that it views the eastward expansion of the North Atlantic Treaty Organisation, potentially including ex-Soviet republics, such as Georgia, as hostile. In addition, relations between Georgia's neighbours, Azerbaijan and Armenia, remain tense and there are sporadic instances of violence between these two countries.

Any future deterioration or worsening of Georgia's relationship with Russia, including any major changes in Georgia's relations with Western governments and institutions, in particular in terms of national security, Georgia's importance to Western energy supplies, the amount of aid granted to Georgia or the ability of Georgian manufacturers to access world export markets, or a significant deterioration in relations between Azerbaijan and Armenia, may have a negative effect on the stability of Georgia, both in political and economic terms which, in turn, could have an adverse effect on the Group.

As most of the Group's businesses operate only within Georgia, the Group's success is dependent on a number of economic, political and other factors affecting Georgia that are beyond its control

Georgia accounted for 88.4%, 90.7% and 87.5% of the Group's total consolidated income for the years ended 31 December 2011, 2010 and 2009, respectively. Therefore, macroeconomic factors relating to Georgia, such as GDP, inflation, interest and currency exchange rates, as well as unemployment, personal income and the financial situation of companies, have a material impact on loan losses, margins and customer demand for the Group's products and services, which materially affects the Group's business, financial condition and results of operations.

Georgia's main economic activities include tourism, transit services, agriculture, mining, metals, machinery and chemicals. According to the Legal Entity of Public Law National Statistics Office of Georgia (Geostat), the country's real GDP grew by 9.4% in 2006 and 12.3% in 2007 and, according to the Ministry of Finance of Georgia, this growth was largely based on strong inflows of FDI and robust spending by the government of Georgia. However, the global economic downturn led to a decline in public spending and Georgia experienced a 52.8% reduction in FDI in 2009, compared to 2008, following the 2008 Conflict. Real GDP in Georgia declined by 3.8% in 2009 compared with growth of real GDP by 2.3% in 2008 due to the global economic crisis, which led to deterioration in the employment market in Georgia and, in turn, contributed to a decrease in loans and a slowdown in the rate of growth of deposits in the Georgian banking sector. In addition, the Georgian banking sector began to experience a shortage of liquidity in the second half of 2008, which continued into the first half of 2009, increasing competition for retail deposits.

The economic slowdown in Georgia reduced the growth rate of the Group's portfolio of retail and corporate loans. This in turn affected the Group's net fee and commission income (and, to a certain extent, the Group's net interest income, although this was predominantly affected by a reduction in the size of the Group's securities portfolio). Moreover, financing costs increased due to both the limited availability of funding on the inter-bank market, mainly driven by credit risk aversion, and banks' increasing interest rates on deposits resulting from tightening competition on the deposit market, which also had a negative impact on the net interest income earned by the Group. In addition, the quality of the Group's loan portfolio deteriorated as a result of the economic slowdown, which resulted in an increase in the Group's loans past due more than 90 days. Although the Georgian economy has shown signs of improvement in 2010 and 2011, with real GDP growth of 6.4% in 2010 and 7.0% in 2011, according to the preliminary data published by Geostat, there can be no assurance that the recovery will continue.

Market turmoil and economic deterioration in Georgia could also have an adverse effect on the liquidity, businesses or financial condition of the Group's borrowers, which could in turn, increase the Group's impaired loan ratios, impair its loans and other financial assets and result in decreased demand for the Group's products. In such an environment, consumer spending may decline and the value of assets used as collateral for the Group's secured loans, including real estate, could also decrease significantly. Any of these conditions could have an adverse effect on the Group.

In addition, the Georgian economy is highly dollarised. Prior to 2008, the dollarisation rate of the banking system (defined as foreign currency deposits as a share of total deposits) had been declining with foreign currency deposits accounting for approximately 64.4% of all amounts due to customers as of 1 January 2008. As a result of the combined effects of the 2008 Conflict and the global financial crisis, however, the dollarisation rate increased to approximately 73.6% as of 1 January 2009, although it has since decreased to approximately 68.8% as of 1 January 2010, 67.0% as of 1 January 2011, 59.2% as of 1 January 2012 and 58.8% as of 1 March 2012. Although the NBG has adopted measures to support the development of Georgia's domestic money markets, the dollarisation rate could have an adverse impact on the effectiveness of the implementation of the NBG's monetary policy which, in turn, could have a material adverse effect on the Georgian economy and therefore an adverse effect on the Group.

Instability or a lack of growth in the domestic currency market may have an adverse effect on the development of Georgia's economy and, in turn, have an adverse effect on the Group

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, in 2011, the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (excluding activities of the NBG) amounted to US$ 26.1 billion and € 2.8 billion, respectively. According to the NBG, the NBG had US$2.6 billion in gross official reserves as of 31 December 2011 and US$2.8 billion as of 31 March 2012. While the government of Georgia has stated that these reserves will be sufficient to sustain the domestic currency market in the short term, a lack of growth of this currency market may hamper the development of Georgia's economy, which could have a material adverse effect on the businesses of the Group's corporate clients and, in turn, an adverse effect on the Group.

In addition, a lack of stability in the currency market may adversely affect Georgia's economy. There was significant instability in the Lari to US Dollar exchange rate following the

Russian financial crisis of August 1998 and the 2008 Conflict. While the Lari generally appreciated against the US Dollar and other major international currencies from 2001 to 2008, the Lari then generally depreciated against the US Dollar and other major international currencies until February 2011, when it started to appreciate again. In November 2008, the NBG devalued the Lari by 16.1%, a measure aimed at alleviating the negative impact of the global financial crisis on the Georgian economy. The ability of the government of Georgia and the NBG to limit any volatility of the Lari will depend on a number of political and economic factors, including the NBG's and the government's ability to control inflation, the availability of foreign currency reserves and FDI inflows. Any failure to do so, or a major depreciation or further devaluation of the Lari, could adversely affect Georgia's economy. According to estimates provided by Geostat, annual inflation, as measured by the end-of-period CPI in Georgia was 2.0% in 2011, 11.2% in 2010 and 3.0% in 2009. Inflation continued to rise in 2011, reaching 14.3% at the end of May 2011, and then decreasing to an estimated 2.0% at the end of December 2011. High and sustained inflation could lead to market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence. Any of these events could lead to a deterioration in the performance of Georgia's economy and negatively affect the businesses of the Group's customers which could, in turn, have an adverse effect on the Group.

Political and governmental instability in Georgia could have an adverse effect on the local economy and the Group

Since the restoration of its independence in 1991, Georgia has undergone a substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. Mikheil Saakashvili has served as President of Georgia since January 2004 and the next presidential elections are scheduled to be held in October 2013. However, pursuant to the provisions of Georgia's constitution (Constitution), President Saakashvili cannot stand for a third term in office and there can be no assurance that a change in President will not lead to political instability within the country. Additionally, on 15 October 2010, the Parliament of Georgia (Parliament) approved amendments to the Constitution, the majority of which will become effective after the next presidential election. Although the amendments to the Constitution are intended to enhance the primary governing responsibility of the Parliament and reduce the powers of the presidency, there can be no assurance that their implementation will not create political disruptions or political instability or otherwise negatively affect the political climate in Georgia. Moreover, there can be no assurance that members of the next Parliament will continue the current Parliament's economic and fiscal policies, which have generally been designed to liberalise the Georgian economy. The next parliamentary elections are scheduled to be held in October 2012. In October 2013, following the presidential elections, Parliament must elect a Prime Minister who, upon election, will have greater powers under the amended Constitution. Any protests or criticism in relation to the conduct of such elections may lead to political instability within the country. If any of the events referred to above results in political or governmental instability in Georgia, this could have a negative effect on the economy in Georgia which, could, in turn, have an adverse effect on the Group.

RISKS RELATING TO THE GROUP'S LENDING ACTIVITIES

The Group may not be able to maintain the quality of its loan portfolio

The quality of the Group's loan portfolio is affected by changes in the creditworthiness of its clients, their ability to repay their loans on time, the statutory priority of claims against a client and the Group's ability to enforce its security interests on clients' collateral should such clients fail to repay their loans and whether the value of such collateral is sufficient to cover the full amounts of those loans. In addition, the quality of the Group's loan portfolio may deteriorate due to various other reasons, including factors beyond the Group's control (such as any negative developments in Georgia's economy resulting in the financial distress or bankruptcy of the Group's clients, or restriction of credit information concerning certain clients) and other factors, such as a failure of the Group's risk management procedures or a rapid expansion of the Group's loan portfolio, as described below. During 2008 and 2009, the Group's loan book quality was negatively affected by the economic slowdown in Georgia, Ukraine and Belarus as well as by the 2008 Conflict. As a result, the Group's loan impairment charges increased to GEL 122.8 million in 2008, decreasing slightly to GEL 118.9 million in 2009. These charges decreased to GEL 49.9 million in 2010 and GEL 23.2 million in 2011. Also, as of 31 December 2011 and 2010, loans past-due more than 90 days accounted for 3.3% and 4.7% of total gross loans, respectively, compared to 7.7% as of 31 December 2009. Loans that would otherwise be overdue or impaired whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or possible inability to pay (Restructured Loans) accounted for 4.5% of total gross loans as of 31 December 2011, compared to 10.9% and 29.9% as of 31 December 2010 and 2009, respectively. Although the Group's loan book quality improved and its loan impairment charges decreased in both 2010 and 2011, there can be no assurance that in the longer term the Group's loan portfolio quality will not deteriorate and that the Group's loan impairment charges will not increase, which could, in turn, have an adverse effect on the Group's profitability.

The Group's loan portfolio for its corporate banking segment is highly concentrated, with the Group's top ten corporate borrowers accounting for 15% of the Group's total loan portfolio as of 31 December 2011 (in each case, gross of allowance for impairment). To the extent that the Group grows its loan portfolio by entering into additional arrangements with current counterparties, it will increase its credit and general counterparty risk with respect to those counterparties.

Collateral values may decline

As of 31 December 2011, the Group held collateral against gross loans amounting to GEL 2,256.0 million (US$1,350.9 million), corresponding to 84.6% of the Group's total gross loans. The main forms of collateral taken by the Group in respect of corporate lending are charges over real estate properties, equipment, inventory and trade receivables. The main form of collateral taken by the Group in respect of retail lending is a mortgage over residential property. In respect of mortgage loans which are secured by real estate, the Group imposes a loan-to-value (based on a liquidation value of the collateral) ratio of between 75% and 90% at the time the loan is advanced, depending on the client. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which the Group's clients operate, such as occurred during 2008 and 2009, may result in illiquidity and a decline in the value of the collateral securing the Group's loans, including a decline to levels below the outstanding principal balance of those loans.

In addition, declining or unstable collateral prices in Georgia may make it difficult for the Group to accurately value collateral held by it. If the fair value of the collateral held by the Group declines significantly in the future, the Group could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans past due more than 90 days which could, in turn, have an adverse effect on the Group. If the Group experiences any significant decline in the value of its collateral, additional provisions for loans past due more than 90 days or lower than expected recovery levels on loans past due more than 90 days in the future, this could have an adverse effect on the Group.

Significant changes or volatility in the Group's net interest margin could have an adverse effect on the Group

The Group derives the majority of its total net income from net interest income. As a result, the Group's operations are affected by fluctuations in its net interest margin. In particular, the Group's banking operations depend on the management of key factors which affect the Group's net interest margin, such as interest rates, competition for loans and deposits, customer demand and costs of funding. These key factors are influenced by factors beyond the Group's control, such as global and local economic conditions, the resources of the Group's competitors and consumer confidence. Interest rates are highly sensitive to many factors beyond the Group's control, including monetary policies and domestic and international economic and political conditions as well as the reserve policies of the NBG.

A mismatch of interest-earning assets and interest-bearing liabilities in any given period resulting from changes in any of the key factors outlined above, or otherwise, could reduce the Group's net interest margin. The Group's net interest margin was 7.1%, 8.0% and 8.5% in the years ended 31 December 2011, 2010 and 2009, respectively. Any future reduction in the Group's net interest margin caused by changes in the key factors outlined above could have a material adverse effect on the Group's net interest income and, in turn, an adverse effect on the Group.

In addition, any increase in interest rates may result in an increase in the instalment amounts paid by the Group's customers. Such an increase may result in difficulties related to the repayment of the assumed loans, which in turn may lead to a decrease in the quality of the Group's loan portfolio, and an increase in impairment provisions for loans extended to the Group's customers, which may have an adverse effect on the Group.

Currency fluctuations have affected, and may continue to affect, the Group

A substantial portion of the total assets of the Group, especially its net loan portfolio (70.9% of its loan portfolio as of 31 December 2011), is denominated in foreign currencies, primarily US Dollars, while the majority of customers who have their loans denominated in foreign currencies earn their income in Lari. Those customers are usually not protected against the fluctuations of the exchange rates of the Lari against the currency of the loan. Consequently, any depreciation of the Lari against the currency of the loan may result in difficulties related to the repayment of the loans, which in turn may lead to a decrease of the quality of the Group's loan portfolio and an increase in impairment provisions for loans extended to the Group's customers, which may have an adverse effect on the Group.
In addition, the Group's operations are affected by the Lari to Belarusian Rouble exchange rates as these affect the value of the Group's equity interests in BNB, its Belarusian subsidiary, on a consolidated basis, and affect its ability to comply with contractual covenants based on the Basel I Total Capital Adequacy Ratio, calculated on a consolidated basis.

Depreciations in the Belarusian Rouble compared to the Lari reduce BNB's contribution to the Group's consolidated capital. In May 2011, the Belarusian Rouble was devalued by 39.5% as compared to its value as of 30 April 2011, as measured against the US Dollar. As a result, the regulatory capital of BNB decreased below the minimum regulatory capital required to accept retail deposits (being €25 million, as required by the NBRB). As of 31 December 2011, the regulatory capital of BNB was €14.6 million (GEL 31.6 million) and the NBRB granted a temporary waiver of the minimum regulatory capital requirement through 1 January 2013. As result of the devaluation, the Bank recognised a GEL 23.4 million full write-down in respect of BNB's goodwill. In the second half of 2011, the Belarusian Rouble declined further, declining by 67.8% compared to 30 June 2011, as measured against the US Dollar, and, accordingly, the regulatory capital of BNB declined to €14.6 million (GEL 13.6 million). Any subsequent devaluation of the Belarusian Rouble could result in further declines in BNB's regulatory capital and, consequently, additional write-downs of BNB's goodwill.

Although the Group seeks to minimise its open foreign currency positions through limits on the Group's foreign currency positions in accordance with NBG regulations and through swap agreements, there can be no assurance that these measures will protect against foreign exchange risks since any additional depreciation of the Belarusian Rouble may lead to further erosion of the Group's share capital and pressure on its capital adequacy ratios. The Group is subject to counterparty risk in respect of its swap agreements (including its currency swap agreement with the NBRB), as the Group's counterparties may not honour their obligations under the relevant swap agreement.

If the Lari exchange rate against the US Dollar or the Belarussian Rouble exchange rate against the Euro fluctuates, or any of the Group's counterparties default on their obligations, this could lead to the Group suffering losses which could, in turn, have an adverse effect on the Group.

The Group's risk management methods may prove ineffective at mitigating credit risk

Losses relating to credit risk may arise if the risk management policies, procedures and assessment methods implemented by the Group to mitigate credit risk and to protect against credit losses prove less effective than expected. The Group employs qualitative tools and metrics for managing risk that are based on observed historical market behaviour. These tools and metrics may fail to predict future risk exposures, especially in periods of increased volatility, falling valuations or in periods in which there is a rapid expansion of the Group's loan portfolio. In addition, even though the Group requires regular disclosure of its corporate clients' financial statements, such financial statements may not always present a complete and accurate picture of each client's financial condition. Furthermore, some of the Group's corporate clients may not have extensive or externally-verified credit histories, and their accounts may not be audited by a reputable external auditor. Therefore, notwithstanding the Group's credit risk evaluation procedures, the Group may be unable to evaluate correctly the current financial condition of each prospective corporate borrower and to determine accurately the ability of such corporate borrower to repay its loans when due. Similarly, the financial condition of some private individuals transacting business with the Group is difficult to assess and predict, as some retail borrowers have no or very limited credit history. Accordingly, the risk management systems employed by the Group may prove insufficient in measuring and managing risks and this may have an adverse effect on the Group.

ADDITIONAL RISKS ARISING PRINCIPALLY FROM THE GROUP'S BANKING ACTIVITIES

The Group faces liquidity risk

The Group becomes exposed to liquidity risk when the maturities of its assets and liabilities do not coincide. Liquidity risk is inherent in banking operations and can be heightened by a number of factors, including an overreliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena such as financial market instability or natural disasters. The Group seeks to manage its liquidity risk by, among other things, maintaining a diverse funding base comprising short-term sources of funding (including retail and corporate customer deposits, inter-bank borrowing and borrowing from the NBG) and longer-term sources of funding (including borrowing from international credit institutions, sales and purchases of securities and long-term debt securities). Current liquidity may be affected by unfavourable financial market conditions. If assets held by the Group in order to provide liquidity become illiquid due to unforeseen financial market events or their value drops substantially, the Group may therefore be required, or may choose, to rely on other sources of funding to finance its operations and expected future growth. However, there is only a limited amount of funding available on the Georgian inter-bank market and the Group's recourse to other funding sources may pose additional risks, including the possibility that other funding sources may be more expensive and less flexible. In addition, the Group's ability to use such external funding sources is directly connected with the level of credit lines available to the Group, and this in turn is dependent on the Group's financial and credit condition, as well as general market liquidity.

As of 31 December 2011, 2010 and 2009, 92.7%, 92.8% and 94.1%, respectively, of the Group's amounts due to customers had maturities of one year or less and 44.1%, 42.7% and 44.0%, respectively, were payable on demand. As of the same dates, the Group's ratio of net loans to customers compared to amounts due to customers was 93.4%, 116.1% and 130.5%, respectively. In terms of current and short-term liquidity, the Group is exposed to the risk of unexpected, rapid withdrawal of deposits by its clients in large volumes. Circumstances in which clients are more likely to rapidly withdraw deposits in large volumes include circumstances which are beyond the Group's control, such as a severe economic downturn, a loss in consumer confidence, an erosion of trust in financial institutions, or a period of social, economic or political instability, among others. By way of example, the Bank experienced a higher than usual volume of client withdrawals in the period following the 2008 Conflict. If, in the future, a substantial portion of the Group's clients rapidly or unexpectedly withdraw their demand or term deposits or do not roll over their term deposits upon maturity, this could have an adverse effect on the Group.

The Group is subject to certain regulatory ratios

The Bank, like all other regulated financial institutions in Georgia, is required to comply with certain capital adequacy and regulatory ratios set by the NBG. Although in the past, the Bank's "Investments to equity" and "Investment plus fixed assets to equity" financial ratios have been below the level set by the NBG, the NBG confirmed on 31 December 2009 that it would not impose any sanctions on the Bank as a result and the Bank has been in compliance with both of these financial ratios since February 2011.

In addition, BNB is licensed by the NBRB and is required to comply with certain capital adequacy ratios and minimum share capital requirements set by the NBRB. Although BNB has the minimum level of regulatory capital required by NBRB to conduct banking operations in Belarus (the minimum level for this purposes is set at the equivalent of €5 million and, as of 31 December 2011, the regulatory capital of BNB was €14.6 million), BNB has not had the minimum level of regulatory capital required by NBRB in order to hold retail deposits (set at the equivalent of €25 million for this purpose) since May 2011. Although BNB has received a temporary waiver effective until 1 January 2013 in respect of this breach, there is no assurance that BNB will be able to comply with the minimum level of regulatory capital required by NBRB by 1 January 2013, or that it will be able to obtain a further waiver from the NBRB thereafter. If BNB's level of regulatory capital remains below the minimum level required by the NBRB after the temporary waiver expires and no new waiver is obtained, the NBRB may revoke BNB's licence to accept retail deposits. As of 31 December 2011, BNB had GEL 35.2 million (US$21.1 million) in retail deposits, representing 1.4% of the Group's total client deposits and 0.7% of total liabilities.

Save for BNB not having the minimum level of regulatory capital required by the NBRB in order to hold retail deposits, the Group is not in breach of any applicable capital adequacy or regulatory ratios and has adequate capital for at least the next 12 to 18 months. However, its ability to maintain its ratios in the longer term could be affected by a number of factors, some of which are beyond the Group's control, including:

- the Group's ability to raise capital;
- an increase of the Bank's risk-weighted assets;
- losses resulting from a deterioration in the Bank's asset quality, a reduction in income levels, an increase in expenses or a combination of all of the above;
- a decline in the values of the Bank's securities portfolio;
- changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios; and
- increases in minimum capital adequacy ratios imposed by the NBG.

Failure to maintain the minimum capital adequacy and other regulatory ratios may have an adverse effect on the Group. Moreover, a breach of regulatory requirements relating to the minimum capital adequacy and other regulatory ratios may result in entities in the Group being subject to administrative sanctions, which may result in an increase in the operating costs of the Group, loss of reputation, and, consequently, an adverse effect on the Group.

The Group's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are unpredictable

Currently, the Bank is required to comply with Georgian banking regulations. In addition to mandatory capital adequacy ratios, the NBG is authorised to set lending limits and other economic ratios in Georgia, with which the Bank is required to comply. Under Georgian banking regulations, the Bank is required to, among other things, comply with minimum reserve requirements and mandatory financial ratios and regularly file periodic reports. In addition to its banking operations, the Group also renders other regulated financial services and offers financing products, including brokerage and pension funds operations, as well as insurance and healthcare products and services that are subject to governmental supervision. Additionally, the business, financial condition and results of operations of the Group's activities in Belarus are affected by many legal regulations, instructions and recommendations, including those issued by the NBRB and the NBG.

Future changes in regulation, fiscal or other policies are unpredictable and there is often a delay between the announcement of a change and the publication of details of such change. Moreover, any such change is outside the control of the Group. For example, the NBG has indicated that it is considering introducing a new liquidity framework in Georgia but has yet to confirm the details or timing for the implementation of such liquidity framework. Although the Group closely monitors regulatory developments, there can be no assurance that the current regulatory environment in which the Group operates will not be subject to significant change in the future, including change resulting from a change in government in Georgia or Belarus, or that the Group will be able to comply with any or all resulting regulations.

The Group is subject to operational risk inherent to its business activities

The Group is subject to the risk of incurring losses or undue costs due to the inadequacies, or the failure, of internal processes or systems or human error, or from external events such as errors made during the execution or performance of operations, clerical or record-keeping errors, business disruptions (caused by various factors such as software or hardware failures and communication breakdowns), failure to execute outsourced activities, criminal activities (including credit fraud and electronic crimes), unauthorised transactions, robbery and damage to assets.

Although management believes that the Group's risk management policies and procedures (which are designed to identify and analyse relevant risks to the Group's business, prescribe appropriate limits to various risk areas and monitor the level and incidence of such risks on an on-going basis) are adequate and that the Group is currently in compliance in all material respects with all laws, standards and recommendations applicable to the Group, any failure of the Group's risk management system to detect unidentified or unanticipated risks in the future, or to correct operational risks, or any failure of third parties adequately to perform outsourced activities could have an adverse effect on the Group.

RISKS AFFECTING THE GROUP'S NON-BANKING ACTIVITIES

The Group's insurance subsidiary, ABCI, is subject to the risks inherent in the insurance industry

The Group's insurance subsidiary, ABCI, operates in the property and casualty (P&C), life and health insurance industry. In the ordinary course of business, ABCI seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results through reinsurance. Under such reinsurance arrangements, reinsurers assume a portion of the losses and related expenses; however, ABCI remains liable as the direct insurer on all risks reinsured. Consequently, ceded reinsurance arrangements do not eliminate ABCI's obligation to pay under its insurance policy for losses insured, which could cause a material increase in ABCI's liabilities and a reduction in its profitability. Moreover, ABCI is subject to its reinsurers' credit risk and solvency, and their willingness to make payments under the terms of reinsurance arrangements with respect to its ability to recover amounts due from them.

Although ABCI adheres to strict reinsurance policies and periodically evaluates the financial condition of its reinsurers to minimise its exposure to significant losses from reinsurer insolvencies, reinsurers may become financially unsound by the time their financial obligation becomes due. The inability of any reinsurer to meet its financial obligations to ABCI could negatively impact ABCI's results of operations. In addition, the availability, amount and cost of reinsurance depend on general market conditions and may fluctuate. In the future, reinsurance may not be available to ABCI at commercially reasonable rates, or at all, and any decrease in the amount of ABCI's reinsurance will increase its risk of loss.

In accordance with industry practices and accounting and regulatory requirements, ABCI establishes reserves for reported claims (RBNS), incurred but not reported claims (IBNR) and unearned premiums. Reserves do not represent an exact calculation of liability, but instead represent estimates of what the ultimate settlement and administration of claims will cost based on an assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity, frequency of claims, legal theories of liability and other factors. There can be no assurance that actual claims will not materially exceed its claims reserves and have a material effect on its results of operations. Moreover, as policies involving potential claims above set thresholds are reinsured on a proportional basis, there can be no assurance that ABCI's ultimate net losses will not materially exceed its claim reserves.

The Group's real estate subsidiary, SBRE, is subject to the risks of developing and selling real estate

The Group's real estate subsidiary SBRE, is primarily engaged in developing affordable residential properties for sale and rent. Real property investments are subject to varying degrees of risk including relative illiquidity. Several factors may adversely affect the levels of income from, and the value of, properties, including:

- changes in the Georgian economic climate;
- local conditions such as a surplus of similar properties or a reduction in demand for the property;
- the attractiveness of the property to tenants and purchasers;
- occupancy rates and the ability to collect rent from tenants;

- governmental regulations, including environmental usage, tax laws and insurance; and
- acts of nature, such as earthquakes, tornadoes and floods, that may damage the property.

In addition, SBRE's projects are subject to the general risks associated with construction and development, including the following:

- SBRE may incur cost overruns due to increased material, labour or other costs, which could make completion of the project unprofitable;
- SBRE may be unable to obtain, or face delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorisations, which could result in increased costs and could require the Company to abandon a project entirely; and
- SBRE may be unable to complete construction and leasing of a property on schedule.

Any of these factors could have a material adverse effect on the financial condition and operating results of the property SBRE owns which, in turn, may have an adverse effect on the Group.

OTHER RISKS AFFECTING THE GROUP

The Group may not successfully implement its strategy

The Group aims to achieve long-term sustainable growth and profitability through a secure, modern and universal banking model, as well as to maintain and enhance its leading market position in Georgia by, among other things, doubling the size of the Bank's loan portfolio between the end of 2010 and the end of 2013 in line with expected growth in the market. In addition, the Group has been diversifying its business through the addition of businesses that have strong synergies with its banking operations. Furthermore, the Bank is concentrating on the Georgian market and, to this end, the Bank's subsidiary, BG Capital is in the process of exiting from its brokerage operations in Ukraine and Belarus and the Group intends to exit from its other non-core operations, including Liberty Consumer and the remaining equity interest in BG Bank and, in due course, its interest in BNB. The Group may also pursue selective acquisitions in Georgia.

There can be no assurance that the Group will be able to achieve its major strategic objectives, which may be affected by market conditions, potential legal and regulatory impediments and other factors, or that it will be able to exit from its non-core operations at a satisfactory price, or at all. Any failure by the Group to achieve its strategic objectives could have a material adverse impact on the Group's reputation which, in turn, could have an adverse effect on the Group.

The Group faces competition

In recent years the Georgian banking sector has become increasingly competitive. According to the NBG, as of 31 December 2011 there were 19 commercial banks and foreign bank branches operating in Georgia, of which 18 (including two branches of foreign banking institutions) had foreign capital participation. Bank of Georgia competes with a number of these banks, including TBC Bank, ProCredit Bank, Bank Republic, VTB Georgia and Liberty Bank. In particular, as ProCredit Bank has a large market share in respect of SME and micro finance loans, the Bank faces competition from ProCredit Bank in relation to SME and micro financing in Georgia. TBC Bank and Bank Republic are the Bank's principal competitors in the corporate sector. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share. Additionally, in Belarus, the Group competes with a wide range of local (including state-owned) and international banks.

Although there are currently no anti-monopoly regulations that establish market share limits, there can be no assurance that such anti-monopoly limitations will not be introduced in Georgia in the future. Given the current high market share maintained by the Bank, the introduction of any anti-monopolistic restrictions may have an effect on the growth rates of the Group, restrict the Group's ability to make future acquisitions, or lead to the Group being compulsorily required to sell some of its assets.

Increased competition may have a negative impact on the Group's ability to sustain its margin and fee levels, particularly if the Group's competitors possess greater financial resources (especially in the case of banks with foreign capital investment or banks which are branches of non-resident foreign banks, by way of access to funding from foreign capital or their parent entity), access to lower-cost funding and a broader offering of products than the Group. For example, in 2008 and 2009 the Group's financing costs increased (which in turn had a negative impact on the net interest income earned by the Group) due to, among other things, banks' increasing interest rates on deposits resulting from tightening competition on the deposit market. In addition, increasing competition could lead to significant pressure on the Group's market share. Increasing competition in the banking industry has already led to and may, in the future, continue to lead to increased pricing pressures on the Group's products and services, which could have an adverse effect on the Group.

The Group depends on its key management and qualified personnel

The Group's current senior management team includes a number of persons that contribute significant experience and expertise in the banking and other industries in which the Group operates. The Group's ability to continue to retain, motivate and attract qualified and experienced banking and management personnel is vital to the Group's business. There can be no assurance that the Group will be able to successfully recruit and retain the necessary qualified personnel. The loss or diminution in the services of members of the Group's senior management team or an inability to recruit, train or retain necessary personnel could have an adverse effect on the Group.

The Group's insurance policies may not cover, or fully cover, certain types of losses

The Group generally maintains insurance policies covering its assets, operations and certain employees in line with general business practices in Georgia. Risks that Group entities are insured against generally include fire, lightning, flooding, theft, vandalism, and third-party liability. The Group also maintains Bankers' Blanket Bond and Directors' and Officers' insurance. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. Any uninsured loss or a loss in excess of insured limits could adversely affect the Group's existing operations and could thereby have an adverse effect on the Group.

The Group faces certain risks associated with conducting international operations

The Group has historically made investments in Ukraine and Belarus. The Group's financial results in 2009 were adversely affected by a goodwill write-down in the amount of GEL 73.1 million, predominantly due to the write-off of the entire goodwill associated with BG Bank, as a result of a weak economic environment in Ukraine and high loan and finance lease receivables impairment charges in respect of BG Bank in 2008 and 2009. GEL 4.0 million (9.1%) and GEL 40.8 million (32.5%), respectively, of the Group's loan and finance lease receivables impairment charges were related to the loan book of BG Bank in 2011, 2010 and 2009, while in January and February 2011 prior to the disposal, BG Bank contributed reversal of GEL 0.2 million to the consolidated impairment charge.

Although as part of its revised strategy to concentrate on the Georgian market the Group disposed of an 80% equity interest in BG Bank (in respect of which the remaining GEL 8.2 million (US$4.9 million) instalment of the purchase price is due to be paid in 2011 and 2012), and will continue to seek to exit from its international operations (including its remaining shares in BG Bank and, in due course, its shares in BNB) at an appropriate time, while it holds these assets the Group will continue to be subject to risks that it would not face as a purely domestic bank. These include certain political and economic risks, compliance risks, foreign currency exchange risk, as well as the risk of failure to market adequately to potential customers in other countries. Any failure to manage such risks may cause the Group to incur increased liabilities and have a possible adverse effect on the Group's business, financial condition and results of operations.

If, in the future, the Group fails to comply with any applicable regulations relating to, or the Group is associated with, money laundering or terrorist financing, this could have an adverse effect on the Group

Although the Group has implemented comprehensive anti-money laundering (AML), "know-your-customer" (KYC), "know-your-corresponding-bank" and "know your employee" policies, and is in the process of implementing such policies throughout its financial subsidiaries (including insurance and brokerage), which are monitored by its AML Compliance Department, and adheres to all requirements under applicable legislation aimed at preventing it being used as a vehicle to facilitate money laundering, there can be no assurance that these measures will be completely effective. If, in the future, the Group fails to comply with timely reporting requirements or other AML regulations or is associated with money laundering or terrorist financing, this could have an adverse effect on the Group. In addition, involvement in such activities may carry criminal or regulatory fines and sanctions.

OTHER RISKS RELATING TO EMERGING MARKETS

The uncertainties of the judicial system in Georgia, or any arbitrary or discriminatory state action taken in Georgia in the future, may have a material adverse effect on the local economy and in turn, have an adverse effect on the Group

Georgia is still developing an adequate legal framework required for the proper functioning of a market economy. For example, in Georgia, several fundamental civil, criminal, tax, administrative and commercial laws have only recently become effective. The recent nature of much of Georgian legislation and the rapid evolution of the Georgian legal system place the quality and the enforceability of laws in doubt and result in ambiguities and inconsistencies in their application.

In addition, the court system in Georgia is understaffed and has been undergoing significant reforms. Judges and courts in Georgia are generally less experienced in the area of business and corporate law than is the case in certain other countries, particularly the United States and EU countries. Most court decisions are not easily available to the general public, and enforcement of court judgments may, in practice, be difficult in Georgia. The uncertainties of the Georgian judicial system could have a negative effect on the Georgian economy, could have a material adverse effect on the business of the Group's corporate clients which could, in turn have an adverse effect on the Group. In addition, to varying degrees, the same uncertainties of the tax system in Georgia apply to Belarus.

Uncertainties of the tax system in Georgia may result in the Group facing tax adjustments or fines in the future and there may be changes in current tax laws and policies

In Georgia, tax laws have not been in force for significant periods of time, compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, such tax laws are subject to frequent changes and amendments, which can result in unusual complexities for the Group and its business generally. A new Tax Code was adopted in Georgia on 17 September 2010 and came into effect on 1 January 2011. Differing opinions regarding the interpretation of various provisions exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties, inconsistencies and areas of conflict. While the new Tax Code provides for the Georgian tax authorities to provide advance tax rulings on tax issues raised, thereby reducing the uncertainty regarding interpretation, it is possible that the relevant authorities could take differing positions with regard to interpretative issues, which may result in the Group facing tax adjustments or fines. In addition, there can be no assurance that the current tax laws or government tax policies will not be subject to change in the future, including any changes introduced as a result of a change of government. Such changes, among other things, could include the introduction of new taxes, an increase in the tax rates applicable to the Group or its customers or the introduction of a bank levy. Any such changes in the tax laws or governmental tax policies may have an adverse effect on the Group. In addition, to varying degrees, the same uncertainties of the tax system in Georgia apply to Belarus.

There are additional risks associated with investing in emerging markets such as Georgia

Emerging markets may have higher volatility, limited liquidity, a narrow export base and are subject to more frequent changes in the political, economic, social, legal and regulatory environment than mature markets. Emerging economies are subject to rapid change and are particularly vulnerable to market conditions and economic downturns elsewhere in the world.

In addition, international investors' reactions to events occurring in one emerging market country or region sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by such investors. If such a "contagion" effect occurs, Georgia could be adversely affected by negative economic or financial developments in other emerging market countries. Georgia has been adversely affected by "contagion" effects in the past, including following the 1998 Russian financial crisis and the more recent global financial crisis. No assurance can be given that it will not be affected by similar effects in the future.

Financial or political instability in emerging markets also tends to have an adverse effect on the capital markets of emerging economies and the wider economy as investors generally move their money to more developed markets, which are considered to be more stable, in times of financial or political instability. These risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Georgia.

RISK MANAGEMENT PRINCIPALS

The following discussion may not contain all the information that is important to readers of this Annual Report. For a more complete understanding of risk management process and procedures of the Group, please refer to the Note 31 of the accompanying Audited Consolidated Financial Statements of JSC Bank of Georgia and Subsidiaries.

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The Bank seeks to manage its overall risk exposure by continuously improving its risk management policies and systems. The Bank's risk management procedures are designed to identify and analyse relevant risks to its business, prescribe appropriate limits to various risk areas and to monitor the level and incidence of such risks on an on-going basis. The Bank regularly reviews its risk analysis processes in order to institute improvements which are required in light of the development and growth of its business and the varying nature of the risks which the Bank faces in its day-to-day business.

The Bank's risk management system is based on the principle of continually assessing risk throughout the life of any operation and includes such stages as:
- risk identification;
- quality and quantity assessment of a particular risk;
- determination of an acceptable risk level;
- placement of limits and creation of reserves;
- use of collateral;
- ongoing monitoring and control allowing efficient adjustments in case of any negative changes in the conditions
- on which the preliminary risk assessment was made; and
- analysis of efficiency of the risk management system.

The major risks inherent in the Bank's operations are liquidity risk, market risk (including currency exchange rate risk and interest rate risk), credit risk and operational risk and legal risk.

RISK MANAGEMENT STRUCTURE

The bank conducts its risk management activities within the framework of its unified risk management system.

Responsibility for the conduct of the bank's risk management activities are divided among Bank of Georgia's principal risk management bodies.

Bank Supervisory Board is responsible for the overall risk management approach and for approving risk strategies and principals and is ultimately responsible for identifying and controlling risks. It approves the Bank's Credit Policies, which outlines credit risk control and monitoring procedures and the Bank's credit risk management systems and approves certain decisions which fall outside the scope of the Credit Committees' authority (including approvals of single group borrower lending exposure exceeding US$25.0 million). The Bank Management Board presents a comprehensive credit risk report and market risk report to the Bank Supervisory Board for their review on a quarterly basis.

Bank Audit Committee has overall responsibility for implementing principles, frameworks, policies and limits in accordance with the Bank's risk management strategy. It is responsible for fundamental risk issues and manages and monitors compliance of relevant risk management decisions with the Bank's risk management policy. The Bank Audit Committee facilitates the activities of the internal audit and external auditors of the Bank. The Bank Internal Audit also reviews AML policies and procedures and presents audit reports on AML to the Audit Committee on a quarterly basis. The Bank Audit Committee is elected by the Bank Supervisory Board.

Management Board has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. The Management Board delegates individual risk management functions to each of the various decision making and execution bodies within the Bank.

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure and is also primarily responsible for managing funding and liquidity risks of the Bank.

The Internal Audit department is responsible for the annual audit of the risk management processes of Bank of Georgia. Internal Audit department 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 finding and recommendations to the Audit Committee.

Credit Committees. The Bank has two credit committees (together, the Credit Committees), one which supervises and manages the Bank's credit risks in respect of retail and wealth management loans and one which supervises and manages the Bank's credit risks in respect of corporate loans. Each Credit Committee approves individual loan transactions and establishes credit risk categories and provisioning rates on such transactions. The Deputy CEO (Chief Risk Officer) and the Credit Risk Management department review the credit quality of the loan portfolio, set provisioning rates and, in consultation with the Bank's CEO and Deputy CEO, Finance, adopt decisions on the acceleration and write-off, on a monthly basis, of loans past due for more than 90 days. Each Credit Committee is comprised of tiers of subcommittees. The Credit Committee for retail loans comprises four tiers of subcommittee. (For risk management purposes, wealth management loans are classed as retail loans).

The Credit Committee for corporate loans comprises three tiers of subcommittee. Each first tier subcommittee is chaired by the Risk Manager of the relevant Credit Risk Management department and approves loans resulting in Bank's overall exposure to an existing borrower of up to US$500,000 (or US$200,000 for a new borrower) for corporate loans and up to US$150,000 for retail loans. Second tier subcommittee is chaired by the Head of the Credit Risk Analysis unit for corporate and by Deputy Head of Credit Risk Management department for retail loans and approves loans resulting in the Bank's overall exposure to an existing borrower in the range of US$500,000 to US$1.5 million (or US$200,000 to US$750,000 for a new borrower) for corporate loans and US$150,000 to US$300,000 for retail loans. The third tier subcommittee for corporate loans is chaired by the CEO (and, in his absence, the Deputy CEO, Chief Risk Officer) and approves loans resulting in the Bank's overall exposure to an existing borrower exceeding US$1.5 million (or US$750,000 for a new borrower). The third tier subcommittee for retail loans is chaired by the Director of the Credit Risk Management department, and approves loans of up to US$2.0 million. The fourth tier subcommittee for retail loans is chaired by the CEO (and, in his absence, the Chief Risk Officer) and approves loans resulting in the Bank's single borrower lending exposure exceeding US$2.0 million. All exposures to single group borrowers over US$25.0 million require approval by the Bank Supervisory Board. The third and fourth tier subcommittees of the Credit Committee for retail loans meet three times per week and the first and second tier subcommittees of each of the Credit Committees meet on an as-needed basis, typically two to three times per week. Each of the subcommittees of the Credit Committees make their decisions by a majority vote of their respective members.

Decisions on micro loans under US$100,000 are made at the branch level pursuant to joint approval by the Director of the Micro and SME Lending department or group leader. The originator of the loan does not participate in the approval of the loan.

The Credit Committee for Micro and SME loans comprises three tiers of subcommittees. The first tier Micro and SME Credit Committee is chaired by the head of group of the Micro and SME Lending department and approves loans resulting in the Bank's overall exposure to a borrower of up to US$15,000. The second tier Micro and SME Credit Committee is chaired by the head of the Micro and SME department and approves loans resulting in the Bank's overall exposure to a borrower in the range of US$15,000 to US$100,000. The third tier Micro and SME Credit Committee is chaired by the Risk Manager and approves loans resulting in the Bank's overall exposure to a borrower in the range of US$100,000 to US$500,000.

The Problem Loan Recovery Committee is chaired by one of the following: (1) the heads of the Problem Loan Management department; (2) the heads of the Risk departments; or (3) the Chief Risk Officer, depending on the level of exposure. The Problem Loan Recovery department manages the Bank's exposures to problem loans and reports to the Chief Risk Officer. Chief Risk Officer also chairs the committee which oversees loans which are the subject of litigation.

The Corporate Recovery Committee is chaired by the Chief Risk Officer and is responsible for monitoring all of the Bank's exposures to loans that are being managed by the Corporate Recovery Department. The Corporate Recovery Department reports to the Deputy CEO (Corporate Banking).

Asset and Liabilities Management Committee (ALCO) establishes policy with respect to capital adequacy, market limits, medium and long term liquidity risk and interest rates. Specifically, ALCO

- Sets interbank lending limits, open currency position limits with respect to overnight and intraday positions and stop-loss limits;
- monitors compliance with established value-at-risk (VAR) limits on possible losses as a secondary measure;
- Sets ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities.

The ALCO is chaired by the CEO and at any time deemed necessary, with decisions made by a majority vote of its members. ALCO members include the CEO, Deputy CEO, Finance, Deputy CEO, Chief Risk Officer, Deputy CEO, Corporate Banking, Deputy CEO, Retail Banking, Deputy CEO, Wealth Management, Head of Financial department, Head of Financial Risk Management unit of Finance department, Head of the Treasury, Head of Treasury and Head of Funding. The ALCO reviews financial reports and indices including the Bank's ALM limits/ratios, balance sheet, statement of operations, liquidity gap, interest rate gap, cash flow analyses for the past three months and future projections, deposit concentration and other financial and growth projections on a monthly basis.

The Legal department's principal purposes are to ensure the Bank's activities conform to applicable legislation and to minimize losses from the materialization of legal risks. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, investigation of the Bank's activities in order to identify any legal risks, planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Bank where necessary and investigating possibilities for increasing the effectiveness of the Bank's legal documentation and its implementation in the Bank's daily activities. The Legal department is also responsible for providing legal support to structural units of the Bank.

Implementation

The Bank's risk management system is implemented by the Finance department and the Treasury, Credit Risk Management, Operational Risk Management and Control, Legal, AML Compliance and Security departments and other departments. The Reporting and Analysis unit and the Financial Risk Management unit of the Finance department report to the Head of the Finance department. The Finance department and the Treasury department report to the Deputy CEO, Finance. The Credit Risk Management (Corporate Banking Portfolio Analysis) and Operational Risk Management and Control departments report to the Deputy CEO, Chief Risk Officer) and the Credit Risk.

Management (Retail Banking Portfolio Analysis) department reports to the Deputy CEO, Retail Banking. The Legal and AML Compliance departments report to the Deputy CEO (Legal). The Financial Risk Management unit of the Finance department, in coordination with the Treasury, implements the Bank's market risk policies by ensuring compliance with established open currency position limits, counterparty limits, VAR limits on possible losses and the interest rate policy set by the ALCO. The Treasury department manages foreign currency exchange, money market, securities portfolio and derivatives operations and monitors compliance with the limits set by the ALCO for these operations. The Treasury department is also responsible for management of short-term liquidity and treasury cash flow and monitors the volumes of cash in the Bank's ATMs and at its service centres.

The Credit Risk Management department manages credit risks with respect to particular borrowers and assesses overall loan portfolio risks. It is responsible for ensuring compliance with the Bank's Credit Policies, management of the quality of the Bank's loan portfolio and filing and loan administration.

The Operational Risk Management and Control department is responsible for identification and assessment of operational risk categories within the Bank's processes and operations. It is also responsible for detecting critical risk areas or groups of operations with an increased risk level and developing internal control procedures to address these risks, including (among others) business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibility.

The Legal department monitors all changes in relevant laws and regulations, and ensures that those changes are properly reflected in the Bank's procedures, instructions, manuals, templates and other relevant documentation. It also disseminates information on legislative changes to all relevant departments within the Bank. The Legal department also participates in drafting laws and regulatory documents upon request of legislators and regulators, certain associations and other professional bodies.

The Tax Compliance unit of the Finance department focuses on the Bank's relationship with the tax authorities and provides practical advice and monitors tax compliance across the Group.

Each of the foregoing departments is provided with policies and/or manuals that are approved by the Bank Management Board and/or the Bank Supervisory Board. The manuals and policies include comprehensive guidance for each stage of a transaction, including, but not limited to, manuals outlining asset and liability management policies, foreign exchange operations procedures, fixed income investment guidelines, retail banking operations procedures, the deposit policy and the Credit Policies.

RISK MEASUREMENT AND REPORTING

The Bank measures risk 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. These models use probabilities derived from historical experience, adjusted from time to time to reflect the economic environment. The Bank also runs worst case scenarios that could arise in the event that those extreme events, however unlikely, 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 it is willing to accept, with additional emphasis on selected industries. The Bank also conducts ongoing monitoring and control allowing efficient adjustments in case of any unexpected changes in the conditions on which the preliminary risk assessment was made.

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.

The Bank maintains a management reporting system which requires the Credit Risk Management, Finance and Funding departments to prepare certain reports on a daily and monthly basis. On a daily basis, a statement of operations, balance sheet and Treasury Report (which includes the Bank's open foreign exchange positions, cash flows, limits and balances on NOSTRO and LORO correspondent accounts) and confirmation that there has been compliance with mandatory financial ratios must be provided by each department. On a monthly basis, a report on the structural liquidity gap, a report on interest rate risk, monthly financial statements, and a Bank Supervisory Board quarterly report containing analysis of the Bank's performance against its budget are provided.

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 Bank Management Board, and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Bank Management Board and Bank Supervisory Board receive a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and draw conclusions on the Bank's risk exposure.

Specifically tailored risk reports are prepared and distributed for all levels throughout the Bank 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 Bank Management Board and all other relevant employees of the Bank on the utilisation of market limits on proprietary investments and liquidity, plus any other risk developments.

RISK MITIGATION AND EXCESSIVE RISK CONCENTRATION

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

The Bank actively uses collateral to reduce its credit risks.

Concentrations arise when a number of counterparties, or related shareholders, are engaged in similar business activities, or activities in the same geographic region, 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 indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risks, the Bank focuses on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk is managed through the ALCO-approved liquidity framework.

Treasury manages liquidity on a daily basis. In order to manage liquidity risk, it performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the assets/liabilities management process.

The Finance department prepares and submits monthly reports to the ALCO. The ALCO monitors the proportion of maturing funds available to meet deposit withdrawals and the amounts of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk management framework models the ability of the Bank to fund under both normal conditions and during a crisis situation. The Bank has developed a model based on the Basel III liquidity guidelines. This approach is designed to ensure that the funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The liquidity management framework is reviewed from time to time to ensure it is appropriate to the Bank's current and planned activities. Such review encompasses the funding scenarios modelled, the modeling approach, wholesale funding capacity, limit determination and minimum holdings of liquid assets. The liquidity framework is reviewed by the ALCO prior to approval by the Bank Management Board.

The Finance department also undertakes an annual funding review that outlines the current funding strategy for the coming year. This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of the Bank's upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the Bank Management Board and approved by the Bank Supervisory Board as part of the annual budget. The Funding and Treasury departments also review, from time to time, different funding options and assess the refinancing risks of such options.

The Bank's capability to discharge its liabilities is dependent on ability to realise an equivalent amount of assets within the same period of time. The Bank maintains a portfolio of highly marketable and diverse assets that it believes can be easily liquidated in the event of an unforeseen interruption of cash flow. It also has committed lines of credit that it can access to meet its liquidity needs. Georgian commercial banks are entitled to get one week NBG's refinancing facility by pledging NBG CD's, Georgian Government Securities or GEL mortgage loans. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted. As of 31 December 2011, in line with the NBG's requirements, 15% of customer deposits in foreign currencies are set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of 10% of its customer deposits in Georgian Lari at its correspondent account at the NBG. For wholesale funding, the NBG requires the Bank to set aside 15% of its unsubordinated foreign currency wholesale funding for borrowings with remaining maturity of less than one year, 5% for borrowings with a remaining maturity of more than one year (but less than two years) and 10% of its unsubordinated Georgian Lari wholesale funding with a remaining maturity of less than one year.

In the Georgian marketplace, the majority of working capital loans are short-term and are granted with the expectation of renewing such loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented elsewhere. In addition, the maturity gap analysis does not reflect the historical stability of current accounts.

The Bank's principal sources of liquidity are deposits, borrowings from international credit institutions, interbank deposit agreement, debt issues, proceeds from sale and securities, principal repayments on loans, interest income and fee and commission income.

As of 31 December 2011, the Group's total consolidated amounts due to customers were GEL 2,735.2 million and represented 70.9% of the Group's total liabilities. Included in amounts due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In case of early withdrawal, the interest on deposit is foregone or reduced. As of 31 December 2011, total amounts due to credit institutions were GEL 921.2 million.

MARKET RISK

The Bank is exposed to market risk (including currency exchange rate risk and interest rate risk), which is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk exposure arises from open positions in fixed income and currencies, all of which are exposed to market fluctuations. The general principles of the Bank's market risk management policy are set by the ALCO. The Bank aims to limit and reduce the amount of possible losses on open market positions which may be incurred by the Bank due to negative changes in currency exchange rates and interest rates. The Bank classifies exposures to market risk into either trading or non-trading positions. Trading and non-trading positions are managed and monitored using other sensitivity analysis. In order to address these risks, the ALCO specifically establishes VAR limits on possible losses for each type of operation (currently the VAR limit is set for foreign currency exchange operations only) and the Finance and Treasury departments monitor compliance with such limits.

Currency Exchange Rate Risk. Currency exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position. The Bank's currency risk is calculated as an aggregate of open positions and is controlled by setting a VAR calculation (established by the ALCO) with respect to the Bank's currency basket. The Bank uses the historical simulation method based on one-year statistical data. Its open currency positions are managed by the Treasury department and Finance department on a day-to-day basis and are monitored by the Head of Treasury on a real-time basis. The ALCO sets open currency position limits with respect to both overnight and intraday positions and stop-loss limits. Currently, the Bank's proprietary trading position is limited by the ALCO to a VAR of 5 basis points of the its NBG regulatory capital for a one-day trading period with a 95.0% "tolerance threshold", but the open position is limited to a maximum of 15.0% of its NBG regulatory capital. The ALCO limit of 15.0% is more conservative than NBG, which allows banks to keep open positions of up to 20.0% of regulatory capital. The Bank additionally limits open foreign currency positions other than US Dollars and Lari to 1% of the regulatory capital. The Bank also applies sensitivity stress tests to its open currency positions to estimate potential negative impact on its net assets and earnings.

Interest Rate Risk. The Bank has exposure to interest rate risk as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed and floating interest rates. Interest margins on assets and liabilities having different maturities may increase or decrease as a result of changes in market interest rates.
Similarly to other Georgian banks, the majority of the Bank's assets and deposits have fixed interest rates. In order to minimise interest rate risk, the Bank monitors its interest rate (repricing) gap and maintains an interest rate margin (net interest income before impairment of interest earning assets divided by average interest earning assets) sufficient to cover operational expenses and risk premium.

Within limits approved by the Bank Supervisory Board, the ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. Compliance with the Bank's interest rate policy is monitored by the Head of the Financial Risk Management unit of the Finance department and the Head of the Treasury department. In May 2009, the Bank entered into an ISDA Master Agreement with IFC, pursuant to which from time to time the Bank enters into interest rate swaps with IFC to hedge its US Dollar interest rate risk on its outstanding long-term borrowings.

The Bank is also subject to prepayment risk, which is the risk that the Bank 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. The Group reviews the prior history of early repayments by calculating the 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. This allows the Bank to calculate the expected amount of unforeseen losses in case of early repayments.

CREDIT RISK

The Bank is exposed to credit risk, which is the risk that a borrower or counterparty will be unable to pay amounts in full or in part when due. Credit risk arises mainly in the context of the Bank's lending activities. The general principles of the Bank's credit policy are outlined in the Credit Policies. The Credit Policies also outline credit risk control and monitoring procedures and the Bank's credit risk management systems. The Credit Policies are reviewed annually, or more frequently if necessary. As a result of these reviews, new procedures addressing the standards and methodology for loan loss provisioning pursuant to IFRS requirements were implemented, new loan restructuring tools were introduced and the loan terms were tightened. The Bank also uses the NBG's provisioning methodology in order to comply with NBG requirements.

The Bank manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate borrowers or groups of related borrowers, liability of insurance companies, types of banking operations and by complying with the exposure limits established by the NBG. The Bank 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 the loan impairment. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements. The exposure to individual corporate borrowers (including financial institutions) is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits with respect to trading terms such as foreign exchange contracts.

The Credit Committees approve individual transactions, establish credit risk categories and establish credit risk categories and provisioning rates in respect of such transactions. The Deputy CEO (Chief Risk Officer) and Credit Risk Management department reviews the credit quality of the portfolio and sets provisioning rates, in consultation with the Bank's CEO and Deputy CEO (Finance), on a monthly basis.

The Bank's credit quality review process provides early identification of possible changes in the creditworthiness of counterparties, including regulator 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 Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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.

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

The Bank's compliance with credit risk exposure limits is monitored by the Credit Risk Management department on a continuous basis. Exposure and limits are subject to annual or more frequent review. The Bank establishes provisions for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The Bank creates provisions by reference to the particular borrower's financial condition and the number of days the relevant loan is overdue. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by an adjusted provision account. The determination of provisions for impairment losses is based on an analysis of the assets at risk and reflects the amount which, in the judgment of the Bank's management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of financial assets. Provisions are made against gross loan amounts and accrued interest.

Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans in the amount of GEL 600,000 or more and non-significant loans are defined as loans less than GEL 600,000. The Credit Risk Management department makes an individual assessment of significant loans and loans with category A rating are given a collective assessment rate. All significant loans other than category A are provisioned individually depending on the category they fall in Categories are determined according to borrower's financial performance business performance, leverage, credit history, quality of management and shareholders' support. In addition, the loan to collateral ratio and quality of collateral may affect the provisioning rates of individually assessed loans. All non-significant loans are divided into different groups (for example mortgage, consumer, micro-financing loans).

All non-significant loans that are overdue more than 30 days are provisioned individually mainly based on the 140 overdue days. All non-impaired non-significant loans, as well as non-impaired prime rated significant loans, are assessed collectively within the sub-loan portfolio categories based upon historical loss rates. Non-significant loans which are overdue for more then 150 days are written off automatically, except for mortgage loans which, since June 2009, are written off once overdue for more than 365 days. Significant loans may be written-off following an assessment by the Deputy CEO, Chief Risk Officer and the Credit Risk Management department, in consultation with the Bank's CEO and Deputy CEO, Finance.

OPERATIONAL RISK

The Bank is exposed to operational risks, arising out of the various operational activities in which it is engaged.

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

The Bank manages its operational risks by establishing, monitoring and continuously improving its policies and procedures relating to the various aspects of the Bank's cash, payments, accounting, trading and core processing operations and data backup and disaster recovery arrangements.

The Bank has an integrated control framework encompassing operational risk management and control, AML compliance, corporate and information security and physical security, each of which is managed by a separate department, and an internal audit function for the Bank Group.

The Operational Risk Management and Control department is responsible for identification and assessment of operational risk categories within the Bank's processes and operations, detecting critical risk areas or groups of operations with an increased risk level, developing response actions and the imposition of restrictions in critical risk zones to neutralise identified risk and developing business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibilities. The Operational Risk Management and Control department is also responsible for developing and updating policies and procedures and ensuring that these policies and procedures meet legal and regulatory requirements and help to ensure that material operating risks are within acceptable levels. It also monitors and periodically reviews the Bank's internal control systems to detect errors or infringements by the Bank's departments and divisions. The Head of the Operational Risk Management department, who reports to the Deputy CEO (Chief Risk Officer) is responsible for the oversight of the Bank's operational risks.

ANTI MONEY LAUNDERING COMPLIANCE

The Bank's AML Compliance department is responsible for the implementation of the Bank's AML programme (including the development of AML policies and procedures, transaction monitoring and reporting and employee training) throughout the Bank and its subsidiaries. The AML programme is based on recommendations and requirements of Georgian and international organisations including FATF/GAFI and OFAC recommendations. The Bank's Internal Audit department audits the AML Compliance department and monitors implementation of the AML programme. It is fully independent of all other business functions within the Bank.

The Bank has policies and procedures aimed at preventing money laundering and terrorist financing, including a general anti-money laundering policy and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the FMS, a legal entity of public law. The FMS was established in 2003 and serves as Georgia's financial intelligence unit. These procedures aim to, among other things, minimise the risk of the Bank being used as a vehicle for money laundering or terrorist financing, protect the Bank from financing and reputation risks of being associated with money laundering or terrorist financing activities and ensure that banking services are provided only to bona fide clients. The Bank has implemented specific policies and procedures in order to satisfy the requirements of the EU's Third Directive, which requires financial institutions to identify and verify the identity of its customers and their beneficial owners and monitor its customers' transactions, while taking into account a risked-based approach.

Adopting a risk-based approach implies the adoption of a risk management process for dealing with money laundering and terrorist financing. This process encompasses recognising the existence of risks, undertaking an assessment of those risks and developing strategies to manage and mitigate the identified risks. The Bank uses a risk assessment matrix based on the client, sector, country and product risk. The Bank has a general AML policy; "know your customer" procedures that require it to identify its clients, verify their identity and their ultimate beneficial owners as well as the economic rationale of their transactions; "know your correspondent bank" procedures that involve careful screening of prospective correspondent banks' AML policies; and "know your employee" procedures to prevent its employees' involvement in money laundering and financing terrorism.

The Bank's risk-based approach means that it applies enhanced due diligence procedures if it determines that there is a significant risk that particular clients are engaged in money laundering and financing terrorism.

The Bank carries out transaction monitoring using profiling and rules-based methodologies. Customer profiling is used to identify unusual patterns of activity by comparing current patterns with previous transactions by the same customer or peer group. Under the rule-based methodology, certain types of transactions over GEL 30,000 or its equivalent in foreign currencies as well as transactions involving certain high-risk, non-cooperative or suspicious.

INTERNAL AUDIT

The Internal Audit department ensures that the Bank's policies conform to current legislation and regulation and professional norms and ethics. The Internal Audit department is responsible for monitoring and assessing the adequacy of compliance with internal procedures at all levels of the Bank's management. This department regularly inspects the integrity, reliability and compliance with applicable law of operations conducted by the Bank's risk management departments, and regularly reviews the reliability of the Bank's information technology systems in accordance with a predetermined schedule. It also assesses the reliability and security of financial information and monitors the Bank's internal controls and reporting procedures.

The Internal Audit department is independent from the Bank Management Board. The Head of the Internal Audit department is appointed by the Bank Supervisory Board and reports directly to the Bank Audit Committee.

The principal function of the Internal Audit department is to reduce the levels of operational and other risks, audit the Bank's internal control systems, and detect any infringements or errors on the part of the Bank's departments and divisions.

As part of its auditing procedures, the Internal Audit department is responsible for the following:

- identifying and assessing potential risks regarding the Bank's operations;
- reviewing the adequacy of the existing controls established in order to ensure compliance with the Bank's policies, plans, procedures and business objectives;
- developing internal auditing standards and methodologies;
- carrying out planned and random inspections of the Bank's branches and subdivisions and auditing its subsidiaries;
- analysing the quality of the Bank's products;
- participating in external audits and inspections by the NBG;
- making recommendations to management on the basis of external and internal audits to improve internal controls;
- monitoring the compliance of the Bank with the NBG regulations; and
- monitoring the implementation of auditors' recommendations.

The Internal Audit Department applies a risk-based audit approach to assess the significant risks that impact the Bank's business, how (and how well) those risks are managed and controlled, what measures are used to monitor the process, the reliability of the Bank's key performance indicators and management information and the efficiency of the process.

CORPORATE GOVERNANCE

JSC BANK OF GEORGIA CORPORATE GOVERNANCE

OVERVIEW

Georgia has not adopted a code of corporate governance. In December 2003, the NBG circulated an official letter to Georgian commercial banks requesting them to begin introducing the best corporate governance practices based on the 1999 OECD Corporate Governance Principles. However, no deadline for such implementation has been established. Bank of Georgia has, however, put in place a robust framework for corporate governance which it believes is suitable for a company of its size and nature *(for further details see "Corporate Governance" on JSC Bank of Georgia's website at* ***www.bankofgeorgia.ge/ir***). In 2012, Bank of Georgia's corporate governance framework will continue to further strengthen as a result of the Group's premium listing on the London Stock Exchange.

JSC BANK OF GEORGIA'S CORPORATE BODIES

Bank of Georgia's corporate bodies are the General Meeting of Shareholders, the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with Georgian law and Bank of Georgia's Charter (Charter). The General Meeting of Shareholders elects the members of the Supervisory Board, which is responsible for supervising the Management Board. The Supervisory Board appoints the members of the Management Board, which is the executive body of Bank of Georgia directly responsible for day-to-day operations. According to the Georgian law, each bank in Georgia is required to have an audit committee, elected by the supervisory board, which mainly facilitates the activities of the internal audit and external auditors of a bank. Under Georgian law and the Charter, the shareholders are authorised to pass resolutions on certain issues at a General Meeting of Shareholders. According to the Charter, decisions on all other issues are made by the Supervisory Board and the Management Board within their respective capacities.

SUPERVISORY BOARD

In accordance with the Charter, it is the responsibility of the Supervisory Board to supervise the Management Board. The Supervisory Board also assists the Management Board by giving advice. In performing their duties, the Supervisory Board members are required to act in the best interests of Bank of Georgia and its business.

The Supervisory Board consists of seven non-executive members. Members of the Supervisory Board may be appointed and dismissed at a General Meeting of Shareholders. Banking regulations contain certain limitations as to who may become a member of the Supervisory Board, for example, a person who has been convicted of money laundering, terrorist financing or economic crime cannot be elected to the Supervisory Board of a bank. The statutory term of each Supervisory Board member is four years. The Supervisory Board as well as each holder of voting shares is entitled to make a recommendation on one or more candidates for each vacant seat of the Supervisory Board.

The Chairman of the Supervisory Board (or in case of his/her absence, the Vice-Chairman) convenes the Supervisory Board meetings and determines the agenda. Any member may add items to the agenda or request a meeting of the Supervisory Board.

Bank of Georgia's Supervisory Board currently consists of: Neil Janin (Chairman), David Morrison, Allan J. Hirst, Ian Hague, Kaha Kiknavelidze, Hanna Loikkanen and Al Breach. During 2011, the Supervisory Board held four scheduled meetings, with an additional 41 meetings being held as necessary.

MANAGEMENT BOARD

The Management Board is an executive body that is responsible for the day-to-day management of Bank of Georgia (with the exception of the functions reserved for the General Meeting of Shareholders and the Supervisory Board) and consists of the CEO and not less than three directors. The Management Board is accountable to the shareholders and the Supervisory Board and its members are appointed and dismissed by the Supervisory Board. Banking regulations contain certain limitations as to who may become a member of the Management Board and criteria that each director must fulfil. The Supervisory Board approves the remuneration and other conditions of employment for each member of the Management Board. Certain resolutions of the Management Board are subject to the prior approval of the Supervisory Board.

The Management Board is headed by the CEO. The CEO is responsible for: (i) acting independently on behalf of Bank of Georgia (subject to any required consents from the Supervisory Board); (ii) chairing meetings of the Management Board, supervising the implementation of decisions of the Management Board, Supervisory Board and the General Meeting of Shareholders, assigning tasks to the Management Board members with the consent of the Supervisory Board and to other managers of Bank of Georgia and issuing relevant orders, instructions and other directives for these purposes; (iii) submitting for approval by the Supervisory Board, recommendations on the remuneration and bonuses of Bank of Georgia's employees; (iv) appointing and dismissing employees in accordance with the employee recruitment plan approved by the Management Board; (v) carrying out any other activity required for attaining the goals of Bank of Georgia (except those that fall within the competence of the General Meeting of Shareholders or Supervisory Board). The CEO is entitled to delegate his direct tasks to other Management Board members or the heads of the relevant departments of Bank of Georgia.

As of the date of this Annual Report, Bank of Georgia's Management Board consists of: Irakli Gilauri (CEO), Murtaz Kikoria, Archil Gachechiladze, Mikheil Gomarteli, Vasil Revishvili, Sulkhan Gvalia, Avto Namicheishvili and Irakli Burdiladze. Murtaz Kikoria and Vasil Revishvili were appointed to the Management Board in June 2011. Giorgi Chiladze resigned from the Management Board of Bank of Georgia in March 2012.

AUDIT COMMITTEE

According to the Banking Law, Georgian banks are required to have an audit committee which mainly facilitates the activities of the internal audit and external auditors of a bank. The audit committee is formed by the Supervisory Board. Bank of Georgia's Audit Committee is comprised of not less than three members. If there are independent members in the Supervisory Board, at least one of them shall be elected to the Audit Committee. If there are no independent members in the Supervisory Board, any other member of the Supervisory Board shall be elected to the Audit Committee. The Audit Committee is presided over by the chairman who is elected by the Supervisory Board.

Meetings of the Audit Committee are held at least once a quarter. In extraordinary cases, a meeting may be convened upon the request of the Supervisory Board. The Audit Committee passes resolutions by a simple majority of votes. The attending members do not have the right to abstain from voting.

Bank of Georgia's Audit Committee currently consists of: Allan J. Hirst (Chairman), Kaha Kiknavelidze and David Morrison.

During 2011, the Audit Committee held four scheduled meetings.

COMPENSATION COMMITTEE

The amount of remuneration paid to members of the Supervisory Board is determined by the General Meeting of Shareholders. The remuneration of the Management Board is determined by the Supervisory Board. In May 2006, the Supervisory Board established a Compensation Committee which is responsible for reviewing and approving compensation packages for the members of the Management Board and certain senior managers of Bank of Georgia. Bank of Georgia's Compensation Committee currently consists of: Al Breach (Chairman), Neil Janin and David Morrison.

During 2011, the Compensation Committee held one scheduled meeting.

BANK OF GEORGIA HOLDINGS PLC CORPORATE HISTORY

BGH was incorporated and registered in England and Wales on 14 October 2011 as a public limited company with the registered number 7811410. BGH's registered office and principal place of business is at 84 Brook Street, London, W1K 5EH, United Kingdom and its telephone number is +44 (0) 20 3178 4052. BGH's Articles of Association are available for inspection at BGH's office as well as on the BGH website, www.bogh.co.uk.

BGH was incorporated to serve as the new parent holding company for the Group, which became effective on 28 February 2012, the date on which the BGH shares were admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc's Main Market for listed securities. Such admission followed the successful completion of the tender offer by BGH under which BGH acquired 98.35% of the issued share capital,, including those shares represented by GDRs of Bank of Georgia. Following admission, BGH announced its intention to terminate the GDR programme and delist the GDRs effective in June 2012.

As at the date of this Annual Report, 35,909,383 BGH shares are 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". Following the successful reduction of capital completed in March 2012, each BGH share has a nominal value of £0.01.

BGH currently holds 98.35% of the share capital of Bank of Georgia. Such holding is expected to increase if and when BGH effects the squeeze-out of minority shareholders.

By virtue of admission to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc's Main Market for listed securities, BGH is subject to the UK Corporate Governance Code, the Disclosure and Transparency Rules and the Listing Rules of the UK Listing Authority, among other applicable legislation and regulation.

BANK OF GEORGIA HOLDINGS PLC CORPORATE GOVERNANCE

BGH is currently in compliance with all of the requirements of the Corporate Governance Code, save that, contrary to the provisions of section D.1.1 of the Corporate Governance Code, the remuneration of BGH's executive director in his capacity as director of Bank of Georgia will include share options pursuant to Bank of Georgia's senior executive equity plan which will vest in less than three years.

In addition, upon admission to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc's Main Market for listed securities, BGH implemented the following policies and procedures, which are applicable to all members of the Group and their respective directors, officers and employees:

- Code of Conduct and Ethics
- Share Dealing Code (which has adopted the Model Code as published in the Listing Rules)
- Inside Information Disclosure Policy
- Anti-Bribery and Corruption Policy
- Whistleblowing Policy
- Risk Management Policy
- Environmental and Social Policy
- Related Party Transaction Policy
- Policy for the Provision of Non-Audit Services by the External Auditor

A full Corporate Governance Report will be included in the BGH Annual Report and Accounts for the year ending 31 December 2012.

BGH BOARD AND COMMITTEES

The BGH Board comprises eight directors. All of the non-executive BGH directors also comprise Bank of Georgia's Supervisory Board. The BGH Board considers Neil Janin, David Morrison, Al Breach, Allan Hirst and Kaha Kiknavelidze to be independent non-executive directors. All directors are subject to re-election by shareholders at the BGH Annual Meeting, scheduled in June 2012.

The BGH Board has clearly defined in writing the roles and responsibilities of each of the Chairman, CEO and Senior Independent Director and has also adopted a Schedule of Matters Reserved for the Board, which clearly defines the matters the BGH Board may not delegate.

The BGH Board is assisted in fulfilling its responsibilities by four principal committees, being the BGH Audit, Nomination, Remuneration and Executive Committees. The members of such committees are appointed by the BGH Board. Terms of Reference for each Board Committee were adopted following incorporation of BGH in October 2011 and are available for inspection at BGH's office as well as on the BGH website, www.bogh.co.uk.

AUDIT COMMITTEE

The members of the BGH Audit Committee are Allan Hirst (Chairman), David Morrison and Kaha Kiknavelidze, all of whom are considered by the BGH Board to be independent.

The BGH Audit Committee has responsibility for: (i) recommending the financial statements to the BGH Board and for reviewing the Group's financial reporting and accounting policies, including formal announcements and trading statements relating to the Group's financial performance; (ii) the relationship with the internal and external auditors and for assessing the role and effectiveness of the internal audit function; (iii) reviewing the Group's procedures for detecting, monitoring and managing the risk of fraud; (iv) recommending to the BGH Board the appointment, re-appointment and removal of the external auditors; (v) reviewing the nature, scope and results of the annual external audit; (vi) recommending the audit fee and on an annual basis assesses the effectiveness and independence of the external auditors; and (vii) keeping under review the Group's internal controls and systems for assessing and mitigating financial and non-financial risk.

NOMINATION COMMITTEE

The members of the BGH Nomination Committee are Neil Janin (Chairman), Allan Hirst, David Morrison, Kaha Kiknavelidze, Al Breach, Ian Hague and Hanna Loikkanen, five of whom are considered by the BGH Board to be independent.

The BGH Nomination Committee is constituted to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the BGH Board. The committee is required to give consideration to succession planning for directors and other senior executives; and make recommendations for new appointments of executive and non-executive directors and on the membership of board committees to the BGH Board. The committee also oversees the annual review of board effectiveness.

REMUNERATION COMMITTEE

The members of the BGH Remuneration Committee are Al Breach (Chairman), Neil Janin and, David Morrison, all of whom are considered by the BGH Board to be independent.

The BGH Remuneration Committee is constituted to determine and make recommendations to the BGH Board the framework or broad policy for the remuneration of the Chairman and CEO of BGH, the Executive Directors and such other members of the executive management as it is designated to consider. The BGH Remuneration Committee also oversees any major changes in employee benefits structures within the Group.

The BGH Remuneration Committee will produce a report of BGH's remuneration policy and practices for the full year ending 31 December 2012, which shall be included in the BGH Annual Report and Accounts for the same year.

EXECUTIVE COMMITTEE

The members of the BGH Executive Committee are Irakli Gilauri and Avto Namicheishvili. Irakli Gilauri is Chairman of the BGH Executive Committee. The BGH Executive Committee is responsible for taking all the day-to-day decisions relating to the Group apart from those that are reserved for the BGH Board.

COMPANY SECRETARY

KB Rea Ltd. was appointed Company Secretary of BGH in October 2011. Kate Bennett Rea, the managing director of KB Rea Ltd. previously served as a legal advisor to Bank of Georgia for six years.

All BGH Directors have access to the advice and services of the Company Secretary, who is also responsible for advising the Board on all governance matters. The Company Secretary also serves as secretary to the Audit, Nomination, Remuneration Committees and Executive Committees.

JSC BANK OF GEORGIA SUPERVISORY BOARD
BOARD OF DIRECTORS OF BANK OF GEORGIA HOLDINGS PLC

NEIL JANIN

Chairman of the Supervisory Board of JSC Bank of Georgia
Independent Non-Executive Director; Appointed in June 2010
Member of Bank of Georgia's Compensation Committee since February 2012

Chairman of the Board of Bank of Georgia Holdings plc
Independent Non-Executive Director; Appointed in October 2011
Chairman of BGH's Nomination Committee since October 2011

Prior to joining the Bank, Mr Janin was Director of McKinsey&Co. in its Paris office. He was employed by the firm for over 27 years, from 1982 until his recent retirement. At McKinsey and Co., he conducted engagements in retail, asset management and corporate banking areas, he was also involved in every aspect of organisational practice such as design, leadership, governance, performance enhancement and transformation. Mr Janin has practised in Europe, Asia and North America. In addition, in 2009, while serving as member of the French Institute of Directors (IFA), Mr Janin authored a position paper on the responsibilities of the board of directors with regards to the design and implementation of a company's strategy. Before joining McKinsey& Co., Mr Janin worked for the Chase Manhattan Bank (now JP Morgan Chase) in New York and Paris, and Procter & Gamble in Toronto. Outside of the Group, Mr Janin serves as counsel to Chief Executive Officers of both for-profit and non-profit organisations, and provides consulting services to McKinsey & Co. He also serves as a director in a number of business and non-profit organisations. Mr Janin holds an MBA from York University, Toronto and a joint honours degree in Economics and Accounting from McGill University, Montreal.

DAVID MORRISON

Vice Chairman of the Supervisory Board of JSC Bank of Georgia
Senior Independent Non-Executive Director; Appointed in June 2010, member since June 2009
Member of Bank of Georgia's Compensation Committee since February 2012
Member of Bank of Georgia's Audit Committee since June 2010

Director of Bank of Georgia Holdings plc
Senior Independent Non-Executive Director; Appointed in October 2011
Member of BGH's Audit Committee since October 2011
Member of BGH's Nomination Committee since October 2011
Member of BGH's Remuneration Committee since October 2011

Mr Morrison worked for 28 years at Sullivan & Cromwell LLP, where he served as Managing Partner of the firm's continental European offices. His practice focused on advising public companies in a transactional context, from mergers and acquisitions to capital raisings. Key banking clients he advised include Banco Espirito Santo in Portugal and Germany's development bank KfW (Mr. Morrison served on the board of directors of KfW's finance subsidiary for 20 years). In 2008 he became founding executive director of the Caucasus Nature Fund (CNF), a charitable trust fund dedicated to nature conservation in Georgia, Armenia and Azerbaijan. Mr. Morrison is the author of several publications on securities law related topics, and has been recognised as a leading lawyer in two jurisdictions—Germany and France. Mr Morrison graduated from Yale College in 1974, received his Law degree from UCLA, and was a Fulbright scholar at the University of Frankfurt.

JSC BANK OF GEORGIA SUPERVISORY BOARD
BOARD OF DIRECTORS OF BANK OF GEORGIA HOLDINGS PLC

ALASDAIR (AL) BREACH

Member of the Supervisory Board of JSC Bank of Georgia
Independent Non-Executive Director; Appointed in June 2010,
adviser to the Board since December 2009
Chairman of Bank of Georgia's Compensation Committee since January 2011

Director of Bank of Georgia Holdings plc
Independent Non-Executive Director; Appointed in October 2011 Chairman of BGH's
Remuneration Committee since October 2011
Member of BGH's Nomination Committee since October 2011

Mr Breach runs Furka Advisors, a Swiss-based asset management firm, and is the co-founder of The Browser.com, a web-based curator of current affairs writing, established in 2008. He has also served on the board of Vostok Nafta Investment Ltd., a Russia-focused Stockholm-based investment company, since 2007. In January 2003, Mr Breach joined Brunswick UBS (later UBS Russia) as Chief Economist, and later additionally became Head of Research and MD until October 2007. From 1998 to 2002 Mr Breach was Russia and FSU economist at Goldman Sachs, based in Moscow. He obtained an MSc in Economics from LSE and a degree in Mathematics with Philosophy from Edinburgh University.

ALLAN HIRST

Member of the Supervisory Board of JSC Bank of Georgia
Independent Non-Executive Director; Appointed in November 2006,
acted as Vice Chairman between 2008 and 2009
Chairman of Bank of Georgia's Audit Committee since June 2010

Director of Bank of Georgia Holdings plc
Independent Non-Executive Director; Appointed in October 2011
Chairman of BGH's Audit Committee since October 2011
Member of BGH's Nomination Committee since October 2011

Prior to joining the Bank, he was employed by Citibank N.A. for nearly 25 years until his retirement in February 2005. At Citibank he led the bank's expansion into Central and Eastern Europe, Russia and Central Asia. From 1999 to 2004, Mr Hirst served as President and Managing Director of ZAO Citibank Russia, having an oversight over the bank's operations in the CIS. Prior to moving to Russia, Mr Hirst worked in various senior capacities at Citibank, including as division executive in the Middle East and Indian Sub-continent and as division executive responsible for establishing the bank's network in Central and Eastern Europe. Mr Hirst additionally serves as non-executive director of the Financial Services Volunteer Corps and Phico Therapeutics. He is also a member of Executive Committee of the board of the FSVC. Mr Hirst received an MBA from University of Texas.

JSC BANK OF GEORGIA SUPERVISORY BOARD
BOARD OF DIRECTORS OF BANK OF GEORGIA HOLDINGS PLC

KAKHABER (KAHA) KIKNAVELIDZE

Member of the Supervisory Board of JSC Bank of Georgia
Independent Non-Executive Director; Appointed in February 2008
Member of Bank of Georgia's Audit Committee since December 2008

Director of Bank of Georgia Holdings plc
Independent Non-Executive Director; Appointed in October 2011
Member of BGH's Audit Committee since October 2011
Member of BGH's Nomination Committee since October 2011

Joining the Bank Supervisory Board is his second role within the Bank, having started his career as Financial Manager at the Bank in 1994. He is also the managing partner of Rioni Capital Partners LLP, the investment management company which he founded in 2007. Mr Kiknavelidze has over 14 years of experience in the equity markets, including serving as Executive Director of UBS where he supervised the Russian oil and gas research team. Prior to joining UBS, he spent eight years at Troika Dialog, initially covering metals and mining and the utilities sectors and later, as deputy head of research and associate partner, leading the oil and gas team. Mr Kiknavelidze received his undergraduate degree in Economics with honours from the Georgian Agrarian University in Tbilisi, Georgia and received his MBA from Emory University in the United States.

IAN HAGUE

Member of the Supervisory Board of JSC Bank of Georgia
Non-Executive Director; Appointed in December 2004
Representative of Firebird Management LLC

Director of Bank of Georgia Holdings plc
Non-Executive Director; Appointed in October 2011
Representative of Firebird Management LLC
Member of BGH's Nomination Committee since October 2011

Mr Hague is the Managing Partner and co-founder of Firebird Management LLC, a New York-based investment fund since 1994. Prior to this, he worked for the United Nations Secretariat. Mr Hague received his undergraduate degree from Wesleyan University in 1983 and was awarded a Masters degree from Monterey Institute of International Studies. He has also conducted graduate work at Columbia University's Harriman Institute.

JSC BANK OF GEORGIA SUPERVISORY BOARD
BOARD OF DIRECTORS OF BANK OF GEORGIA HOLDINGS PLC
JSC BANK OF GEORGIA MANAGEMENT BOARD

HANNA-LEENA (HANNA) LOIKKANEN

Member of the Supervisory Board of JSC Bank of Georgia
Non-Executive Director; Appointed in November 2010
Representative of East Capital

Director of Bank of Georgia Holdings plc
Non-Executive Director; Appointed in October 2011
Representative of East Capital
Member of BGH's Nomination Committee since October 2011

Ms Loikkanen has over 17 years of experience in working with financial institutions in Russia and Eastern Europe. She has been the Chief Representative and Head of the Private Equiy team at East Capital, a Swedish asset management company in Moscow, since November 2007. Ms Loikkanen previously held the position of Country Manager and Chief Executive Officer at FIM Group in Russia, a Finnish investment bank, where she was responsible for setting up and running the Bank's brokerage and corporate finance operations in Russia. Before joining FIM group joining FIM Group, Ms Loikkanen worked for Nordea Finance for four years in various management positions in Poland, the Baltic States and Finland. Earlier in her career, Ms Loikkanen worked for Merita Bank in St. Petersburg as Chief Representative as well as SEB in Moscow. She holds a Masters degree in Economics and Business Administration from the Helsinki School of Economics.

IRAKLI GILAURI

Chief Executive Officer of Bank of Georgia, since May 2006
Chief Executive Officer of Bank of Georgia Holdings plc, since October 2011

Irakli joined the Group in 2004 as Chief Financial Officer, as part of the new management team tasked to restructure the Bank. In May 2006 Irakli was appointed as Chief Executive Officer of the Bank. He is a career banker, having started his career at EBRD after a brief experience of working at the National Bank of Georgia. As a banker at EBRD's Tbilisi and London offices for four years, his work experience included transactions involving debt and private equity investments in Georgian companies. Irakli is also Chairman of the BGH Executive Committee and serves as Chairman of the supervisory board of Aldagi BCI and as member of the supervisory board of the following subsidiaries of the Bank: BG Capital, BNB and Joint Stock Company Galt & Taggart Holdings. Irakli received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick, Ireland, in 1998. He was later awarded the Chevening Scholarship, granted by the British Council, to study at the Cass Business School of City University, London, where he obtained his Master of Science Degree in Banking and International Finance in 2004.

JSC BANK OF GEORGIA MANAGEMENT BOARD

MURTAZ KIKORIA

Deputy CEO, Finance, since March 2012

Murtaz joined the Group in August 2008 and has served in various managerial position within the Group including as Deputy CEO in charge of Compliance; Deputy CEO in charge of Investments and Strategic Projects and the Acting CEO of BG Bank Ukraine. Murtaz has also held the position of Chairman of the Bank Audit Committee. Prior to joining the Group, Murtaz served as a Senior Banker at EBRD. His 19 year banking career includes the position as Head of Banking Supervision and Regulation at the National Bank of Georgia from 2001 and 2005. Murtaz received an undergraduate degree from Tbilisi State University in Economics, specialising in Finance and Credit. Murtaz also serves as a member of the Supervisory Board of BG Bank.

MIKHEIL GOMARTELI

Deputy CEO, Retail Banking, since February 2009

Mikheil joined the Group in 1997 and has approximately 16 years of retail banking experience. Having developed his career at Bank of Georgia, Mikheil has the responsibility for Bank of Georgia's retail banking business. Mikheil's various senior management positions include Co-Head of Retail Banking, Head of Business Development, Head of Strategy and Planning, Head of Branch Management and Sales Coordination, Head of Branch Management and Marketing and Head of Banking Products and Marketing. Mikheil holds a Diploma in Economics from Tbilisi State University.

JSC BANK OF GEORGIA MANAGEMENT BOARD

ARCHIL GACHECHILADZE

Deputy CEO, Corporate Banking, since October 2009

Before joining the Group Archil worked at Lehman Brothers Private Equity in London. Archil's nine years experience in the financial services sector includes Salford Equity Partners (US$350 million fund with offices in London, Moscow, Belgrade and Tbilisi), EBRD in Tbilisi and London, a Senior Financial Analyst at KPMG Barents in Tbilisi and as a Team Leader for the World Bank's CERMA Project in Tbilisi. Archil is a CFA Charterholder and a member of the CFA Society in the United Kingdom. He received an MBA with distinction from Cornell University and undergraduate degrees in Economics and Law from Tbilisi State University.

VASIL REVISHVILI

Deputy CEO, Wealth Management, since June 2011

Vasil joined the Group in August 2008 as Head of Structured Products before becoming Head of Wealth Management in 2009 and his appointment as Deputy CEO in 2011. Vasil has a range of experiences across financial services sector both in Georgia and internationally. Prior to returning to Georgia in 2008, Vasil worked for four years at Pictet Asset Management in London and Geneva as Head of the Investment Risk Unit and later as a Senior Investment Manager in the Balanced and Quantitative Investment Team. Prior to that, Vasil held various positions at the EU-TACIS Counterparty Fund, the Georgian Investment Centre and World Bank Tbilisi Water Project. Vasil received a masters degree in finance with distinction from the London Business School and an undergradutate degree in applied mathematics and computer sciences from Tbilisi State University. Vasil is also a designated Financial Risk Manager by the Global Association of Risk Professionals.

JSC BANK OF GEORGIA MANAGEMENT BOARD

AVTO NAMICHEISHVILI

Deputy CEO, Group Legal Counsel, since July 2008

Avto joined the Group as General Legal Counsel in March 2007 and was appointed as Deputy Chief Executive Officer, Legal Affairs in July 2008. Avto's experience within the Group includes eight mergers and acquisitions in the Georgian financial sector, two international acquisitions, two IPOs including the premium listing on the London Stock Exchange in 2012 and the listing of Bank of Georgia GDRs on the London Stock Exchange in 2006, when he acted in the capacity of adviser to the first IPO from Georgia. Before joining the Group, Avto was a partner at Begiashvili & Co. Limited, a leading Georgian law firm, where he acted as the Bank's external legal advisor from 2004. Avto received undergraduate degrees in law and international economic relations from Tbilisi State University and received a graduate degree (LLM) in International Business Law from Central European University, Hungary. Avto is also a member of the BGH Executive Committee.

SULKHAN GVALIA

Deputy CEO, Chief Risk Officer, since January 2005

Sulkhan joined the Group following the acquisition of TUB, a mid-sized bank in Georgia co-founded by him in 1995, by Bank of Georgia. Sulkhan has almost 20 years banking experience with management positions in risk, credit, finance, strategy and treasury. Experience includes 11 credit risk management years 15 years credit committee membership. Sulkhan received his undergraduate law degree from Tbilisi State University.

JSC BANK OF GEORGIA MANAGEMENT BOARD

IRAKLI BURDILADZE

Deputy CEO, Affordable Housing, since June 2010

Irakli joined the Group in 2007 and prior to his appointment as Deputy CEO, Affordable Housing , served as Chief Operating Officer and Chief Financial Officer of the Bank. Irakli has been a member of Management Board since 2007. Prior to joining the Bank, Irakli served as CFO of the GMT Group, a leading real estate developer and operator in Georgia. As CFO, Irakli was responsible for the group's capital raising efforts and transaction structuring. Irakli received a graduate degree in International Economics and International Relations from the Johns Hopkins University School of Advanced International Studies and an undergraduate degree in International Relations from the Tbilisi State University.

Note: On 26 March 2012, Giorgi Chiladze, Deputy CFO Finance resigned from the Management Board and left the Group. Giorgi Chiladze was replaced by Murtaz Kikoria as Deputy CEO, Finance.

RESPONSIBILITY STATEMENT

The Management Board confirms to the best of their knowledge that:

• the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards;
• the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and the undertakings included in the consolidation taken as a whole; and
• the Annual Report and Accounts include a fair review of the development and performance of the business and the position of the Bank and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

FORWARD LOOKING STATEMENTS

This document contains statements that constitute “forward-looking statements”, including , but not limited to, statements concerning expectations, projections , objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development.

While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other factors could cause actual developments and results to differ materially from our expectations.

These factors include, but are not limited to, (1) general market, macroeconomic, governmental, legislative and regulatory trends, (2) movements in local and international currency exchange rates; interest rates and securities markets, (3) competitive pressures, (4) technological developments, (5) changes in the financial position or credit worthiness of our customers, obligors and counterparties and developments in the market in which they operate, (6) management changes and changes to our group structure and (7) other key factors that we have indicated could adversely affect our business and financial performance, which are contained elsewhere in this document and in our past and future filings and reports, including those filed with the respective authorities.

When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events. Accordingly, we are under no obligations (and expressly disclaim and such obligations) to update or alter our forward-looking statements whether as a result of new information, future events, or otherwise.

BANK OF GEORGIA AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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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.

23 March 2012

ERNST & YOUNG

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	13	1,382	2,006	2,937
Net gains (losses) from revaluation of investment properties		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**
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)**

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
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				
Attributable to:		**116,127**	**90,418**	**(106,240)**
– 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)**
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:

	Ownership / voting, %						
Subsidiaries	31 December 2011	31 December 2010	31 December 2009	Country of incorporation	Industry	Date of incorpora-tion	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 serv.	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

(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 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
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.

(Thousands of Georgian Lari)

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.

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.

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.

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SUBSIDIARIES (CONTINUED)

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.

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.

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

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.

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.

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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.

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

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

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.

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.

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

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.

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.

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT (CONTINUED)

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

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".

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOODWILL (CONTINUED)

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.

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.

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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.

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.

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME AND EXPENSE RECOGNITION (CONTINUED)

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.

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.

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STANDARDS AND INTERPRETATIONS THAT ARE ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

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.

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.

(Thousands of Georgian Lari)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

(Thousands of Georgian Lari)

5. BUSINESS COMBINATIONS (CONTINUED)

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**

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

The net cash inflow on acquisition was as follows:

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

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 inflow	**(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 inflow	**(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 inflow	**(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 (continued)

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 inflow	**(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 MANAGEMENET	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.

(Thousands of Georgian Lari)

6. SEGMENT INFORMATION (CONTINUED)

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				
Revenue **External operating income:**	**Corporate banking**	**Retail banking**	**Wealth management**	**Corporate center**	**Insurance & Healthcare**	**Affordable Housing**	**BG Capital**	**BNB & BGB***	**Liberty Consumer**	**Other**	**Inter – company eliminations**	**Total**
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				
Revenue **External operating income:**	**Corporate banking**	**Retail banking**	**Wealth management**	**Corporate center**	**Insurance & Healthcare**	**Affordable Housing**	**BG Capital**	**BNB & BGB***	**Liberty Consumer**	**Other**	**Inter – company eliminations**	**Total**
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				
Revenue **External operating income:**	**Corporate banking**	**Retail banking**	**Wealth management**	**Corporate center**	**Insurance & Healthcare**	**Affordable Housing**	**BG Capital**	**BNB & BGB***	**Liberty Consumer**	**Other**	**Inter – company eliminations**	**Total**
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 (losses)	29,438	2,817	1,494	33,749
Other non-interest (loss) 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 (losses)	23,977	3,480	1,626	**29,083**
Other non-interest (loss) 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 (reversal)	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 (reversal)	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**

Nominal 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	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:

	Effective annual growth rate in three-year financial budgets	WACC applied for impairment			Carrying amount of goodwill		
		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%	8.8%

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 assets	1,174	4,251	574
Deferred income tax assets	36,242	30,901	24,661
Income tax assets	**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:

Tax effect of deductible temporary differences:	2008	Origination and reversal of temporary differences: In the income statement	In other comprehensive income	Effect of business combination	2009	Origination and reversal of temporary differences: In the income statement	In other comprehensive income	Effect of business combination	2010	Origination and reversal of temporary differences: In the income statement	In other comprehensive income	Effect of business combination	Disposal of subsidiary	2011
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 ASSETS 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			2010			2009		
		Fair value			Fair value			Fair value	
	Notional amount	Asset	Liability	Notional amount	Asset	Liability	Notional amount	Asset	Liability
Interest rate contracts									
Forwards and Swaps – foreign	263,309	–	9,542	338,369	–	14,527	332,108	–	6,447
Foreign exchange contracts									
Forwards and Swaps – domestic	97,781	275	196	66,058	777	597	24,410	–	288
Forwards and Swaps – foreign	255,348	35,850	5,791	54,121	1,815	2,211	1,096	82	–
Equity / Commodity contracts									
Call options – foreign	5,010	698	–	3,014	341	–	8,429	1,047	–
Embedded derivatives from investment deposits	–	–	327	–	–	190	–	–	725
Total derivative assets / liabilities	**621,448**	**36,823**	**15,856**	**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 2011 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**

As at 31 December 2009

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	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)*

(Thousands of Georgian Lari)

19. AMOUNTS DUE TO CREDIT INSTITUTIONS (CONTINUED)

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**

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**

(Thousands of Georgian Lari)

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**

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)

(Thousands of Georgian Lari)

21. EQUITY (CONTINUED)

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).

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.

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.

(Thousands of Georgian Lari)

21. EQUITY (CONTINUED)

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.

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**
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**

(Thousands of Georgian Lari)

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)**

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.

(Thousands of Georgian Lari)

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 accumu lated 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:

	2011	2010	2009
Ordinary shares			
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	Standard grade	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	Standard grade	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
Residential mortgages	12,057	1,124	2,841	28,509	44,531
Corporate lending	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	282,353	387	6,790	289,530
credit institutions	2,508,545	–	44,897	2,553,442
Loans to customers	59,479	–	3,440	62,919
Finance lease receivables				
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	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	188,426	364,616	58,542	611,584
Amounts due from	91,715	14,538	10,216	116,469
credit institutions	2,135,962	8	215,727	2,351,697
Loans to customers	10,036	–	4,383	14,419
Finance lease receivables				
Investment securities:				
– available-for-sale	290,333	60	4,547	294,940
– held-to-maturity	21	–	–	21
All other assets	498,175	9,508	108,109	615,792
	3,214,668	**388,730**	**401,524**	**4,004,922**
Liabilities:				
Amounts due to customers	1,659,774	101,960	264,574	2,026,308
Amounts due to credit institutions	145,398	962,691	30,838	1,138,927
All other liabilities	135,794	4,232	6,320	146,346
	1,940,966	1,068,883	301,732	3,311,581
Net balance sheet position	**1,273,702**	**(680,153)**	**99,792**	**693,341**

(Thousands of Georgian Lari)

31. RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

2009	**Georgia**	**OECD**	**CIS and other foreign countries**	**Total**
Assets:				
Cash and cash equivalents	154,405	127,816	75,668	357,889
Amounts due from	39,447	12,664	12,509	64,620
credit institutions	1,520,174	–	141,157	1,661,331
Loans to customers	8,927	–	7,969	16,896
Finance lease receivables				
Investment securities:				
– available-for-sale	13,418	–	6,172	19,590
– held-to-maturity	249,196	–	–	249,196
All other assets	455,769	8,056	80,082	543,907
	2,441,336	**148,536**	**323,557**	**2,913,429**
Liabilities:				
Amounts due to customers	1,024,771	11,035	237,324	1,273,130
Amounts due to credit institutions	20,102	899,651	8,862	928,615
All other liabilities	85,588	8,958	18,721	113,267
	1,130,461	919,644	264,907	2,315,012
Net balance sheet position	**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	4,034	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**	**4,034**	**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 securi-ties	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 reason-ably possible alternative assumptions	Carrying amount	Effect of reason-ably possible alternative assumptions	Carrying amount	Effect of reason-ably 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.

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.

(Thousands of Georgian Lari)

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 manage-ment personnel	Parent	Asso-ciates*	Key manage-ment personnel	Parent	Asso-ciates*	Key manage-ment 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.*

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).

(Thousands of Georgian Lari)

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.

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%**

(Thousands of Georgian Lari)

36. EVENTS 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%.

SHAREHOLDER INFORMATION

JOINT STOCK COMPANY BANK OF GEORGIA

Registered Address

As of 31 December 2011:
3 Pushkin street
Tbilisi 0105 Georgia

As of the date of the Annual Report:
29a Gagarini Street
Tbilisi 0160 Georgia
www.bankofgeorgia.ge.

Registered under number 06/5-07 by
Krtsanisi District Court
Tbilisi, Georgia
Registration date: 29 November 1995

Stock Listing

London Stock Exchange (LSE)
Ticker symbol for Bank of Georgia GDR is BGEZ

Georgia Stock Exchange (GSE)
Ticker symbol for Bank of Georgia share is GEB

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Registrar

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BANK OF GEORGIA HOLDINGS PLC

Registered Address

84 Brook Street
London W1K 5EH
United Kingdom
www.bogh.co.uk

Registered under number 7811410 in England and Wales
Incorporation date: 14 October 2011

Stock Listing

London Stock Exchange plc's Main Market for
listed securities
Ticker: "BGEO.LN"

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United Kingdom

Share price information

As of the date of this Annual Report, BGH shareholders can access both the latest and historical prices via our website, *www.bogh.co.uk*, as well as listing in the Financial Times.