JSC Bank of Georgia and Subsidiaries
Consolidated Financial Statements

31 December 2012
Together with Independent Auditors' Report

CONTENTS

INDEPENDENT AUDITORS' REPORT

Consolidated statement of financial position 2
Consolidated income statement 3
Consolidated statement of comprehensive income 5
Consolidated statement of changes in equity 6
Consolidated statement of cash flows 7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Activities 8
2. Basis of Preparation 9
3. Summary of Significant Accounting Policies 11
4. Significant Accounting Judgements and Estimates 27
5. Business Combinations 28
6. Segment Information 29
7. Cash and Cash Equivalents 33
8. Amounts Due from Credit Institutions 33
9. Investment Securities Available-for-Sale 33
10. Loans to Customers 34
11. Finance Lease Receivables 37
12. Investment Properties 38
13. Property and Equipment 39
14. Goodwill 41
15. Taxation 42
16. Other Assets and Other Liabilities 45
17. Amounts Due to Customers 46
18. Amounts Due to Credit Institutions 47
19. Commitments and Contingencies 48
20. Equity 49
21. Net Fee and Commission Income 51
22. Net Insurance Revenue 51
23. Net Healthcare Revenue 52
24. Salaries and Other Employee Benefits, and General and Administrative Expenses 52
25. Net Non-operating Expenses 53
26. Share-based Payments 53
27. Risk Management 54
28. Fair Values of Financial Instruments 65
29. Maturity Analysis of Financial Assets and Liabilities 68
30. Related Party Disclosures 70
31. Capital Adequacy 71

Ernst & Young

Ernst & Young LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 43 9375
Fax: +995 (32) 43 9376
www.ey.com/georgia

შპს ერნსტ ენდ იანგი
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 439 375
ფაქსი: +995 (32) 439 376

Independent auditors' report

To the Shareholders and Supervisory Board of JSC Bank of Georgia -

We have audited the accompanying consolidated financial statements of JSC Bank of Georgia and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement 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 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 present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG LLC

4 April 2013

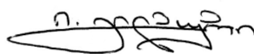
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

(Thousands of Georgian Lari)

	Notes	2012	2011	2010
Assets				
Cash and cash equivalents	7	750,517	628,731	611,584
Amounts due from credit institutions	8	396,559	289,530	116,469
Investment securities:				
– available-for-sale	9	534,698	419,576	294,940
– held-to-maturity		–	–	21
Loans to customers	10	3,033,667	2,553,442	2,351,697
Finance lease receivables	11	71,686	62,919	14,419
Investments in associates		2,441	3,014	5,632
Investment properties	12	160,353	101,686	113,496
Property and equipment	13	430,877	348,110	285,852
Intangible assets		23,078	21,222	22,390
Goodwill	14	45,657	46,195	69,212
Current income tax assets		944	8,487	2,247
Deferred income tax assets		14,352	14,852	18,178
Prepayments		41,147	29,929	23,365
Other assets	16	221,042	137,568	75,420
Total assets		**5,727,018**	**4,665,261**	**4,004,922**
Liabilities				
Amounts due to customers	17	2,693,025	2,735,222	2,026,308
Amounts due to credit institutions	18	1,657,162	921,172	1,138,927
Current income tax liabilities		13,818	1,174	4,251
Deferred income tax liabilities		48,320	36,242	30,901
Provisions	19	683	386	4,407
Other liabilities	16	184,224	158,462	106,787
Total liabilities		**4,597,232**	**3,852,658**	**3,311,581**
Equity	20			
Share capital		36,513	32,878	31,345
Additional paid-in capital		615,627	473,732	477,285
Treasury shares		(464)	(3,146)	(1,510)
Other reserves		25,821	14,478	26,816
Retained earnings		408,538	254,588	130,314
Total equity attributable to shareholders of the Group		**1,086,035**	**772,530**	**664,250**
Non-controlling interests		43,751	40,073	29,091
Total equity		**1,129,786**	**812,603**	**693,341**
Total liabilities and equity		**5,727,018**	**4,665,261**	**4,004,922**

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

Irakli Gilauri  Chief Executive Officer

David Vakhtangishvili Chief Financial Officer

4 April 2013

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

(Thousands of Georgian Lari)

	Notes	2012	2011	2010
Interest income				
Loans to customers		509,339	438,989	389,402
Investment securities – available-for-sale		33,950	37,701	7,287
Amounts due from credit institutions		15,813	18,103	9,795
Finance lease receivables		8,701	6,565	4,159
Investment securities – held-to-maturity		–	–	12,498
		567,803	**501,358**	**423,141**
Interest expense				
Amounts due to customers		(202,484)	(167,294)	(114,968)
Amounts due to credit institutions		(79,492)	(99,763)	(91,829)
		(281,976)	**(267,057)**	**(206,797)**
Net interest income before net (losses) gains from interest rate swaps		**285,827**	**234,301**	**216,344**
Net (losses) gains from interest rate swaps		(1,710)	4,984	(7,826)
Net interest income		**284,117**	**239,285**	**208,518**
Fee and commission income		109,278	93,541	74,265
Fee and commission expense		(22,210)	(18,204)	(10,845)
Net fee and commission income	21	**87,068**	**75,337**	**63,420**
Net insurance premiums earned		91,176	46,396	44,561
Net insurance claims incurred		(57,038)	(28,658)	(27,898)
Net insurance revenue	22	**34,138**	**17,738**	**16,663**
Healthcare revenue		54,376	5,700	2,208
Cost of healthcare services		(31,030)	(3,242)	(1,632)
Net healthcare revenue	23	**23,346**	**2,458**	**576**
Revenue from sale of goods		41,533	22,470	18,144
Cost of sales		(30,868)	(12,109)	(9,050)
Net revenue from sale of goods		**10,665**	**10,361**	**9,094**
Net gains from trading securities and investment securities available-for-sale		2,308	1,382	2,006
Net gains from revaluation of investment properties	12	–	1,984	350
Net gains from foreign currencies:				
– dealing		33,389	45,694	33,651
– translation differences		16,182	30,747	98
Other operating income		7,623	8,767	10,625
Other operating non-interest income		**59,502**	**88,574**	**46,730**
Revenue		**498,836**	**433,753**	**345,001**
Salaries and other employee benefits	24	(121,299)	(114,622)	(103,885)
General and administrative expenses	24	(65,686)	(61,942)	(60,568)
Depreciation and amortization		(28,606)	(27,254)	(27,963)
Other operating expenses		(2,949)	(6,347)	(5,719)
Operating expenses		**(218,540)**	**(210,165)**	**(198,135)**
Operating income before cost of credit risk		**280,296**	**223,588**	**146,866**

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31 December 2012

(Thousands of Georgian Lari)

	Notes	2012	2011	2010
Operating income before cost of credit risk		**280,296**	**223,588**	**146,866**
Impairment charge on loans to customers	10	(39,186)	(23,216)	(49,886)
(Impairment charge) reversal of impairment on finance lease receivables	11	(495)	(317)	5,775
Impairment (charge) reversal on other assets and provisions		(5,036)	1,337	(3,587)
Cost of credit risk		**(44,717)**	**(22,196)**	**(47,698)**
Net operating income		**235,579**	**201,392**	**99,168**
Net non-operating expenses	25	(19,634)	(29,338)	(725)
Profit before income tax expense from continuing operations		**215,945**	**172,054**	**98,443**
Income tax expense	15	(33,200)	(21,125)	(15,776)
Profit for the year from continuing operations		**182,745**	**150,929**	**82,667**
Net loss from discontinued operations		–	(15,219)	–
Profit for the year		**182,745**	**135,710**	**82,667**
Attributable to:				
– shareholders of the Group		178,921	132,531	83,640
– non-controlling interests		3,824	3,179	(973)
		182,745	**135,710**	**82,667**
Earnings per share, total:	20			
– basic earnings per share		5.3986	4.4375	2.7846
– diluted earnings per share		5.3474	4.1957	2.7388
Earnings per share from continuing operations:	20			
– basic earnings per share from continuing operations		5.3986	4.9470	2.7846
– diluted earnings per share from continuing operations		5.3474	4.6499	2.7388

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

(Thousands of Georgian Lari)

	Notes	2012	2011	2010
Profit for the year from continuing operations		**182,745**	**150,929**	**82,667**
Net loss from discontinued operations		–	(15,219)	–
Profit for the year		**182,745**	**135,710**	**82,667**
Other comprehensive income (loss) from continuing operations				
– Revaluation of property and equipment	13	–	1,285	(2,859)
– Revaluation of available-for-sale securities		16,580	3,511	6,077
– Realised gain on available-for-sale securities reclassified to the consolidated income statement		(2,075)	(1,721)	(789)
– Gain (loss) from currency translation differences		(288)	(52,493)	5,116
Income tax relating to components of other comprehensive income	15	(2,826)	5,581	206
Other comprehensive income (loss) for the year from continuing operations, net of tax		**11,391**	**(43,837)**	**7,751**
Other comprehensive gain from discontinued operations		–	24,254	–
Other comprehensive income (loss) for the year, net of tax		**11,391**	**(19,583)**	**7,751**
Total comprehensive income for the year from continuing operations		194,136	107,092	90,418
Total comprehensive income for the year from discontinued operations		–	9,035	–
Total comprehensive income for the year		**194,136**	**116,127**	**90,418**
Attributable to:				
– shareholders of the Group		190,653	121,045	89,830
– non-controlling interests		3,483	(4,918)	588
		194,136	**116,127**	**90,418**

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

(Thousands of Georgian Lari)

	Attributable to shareholders of the Group							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
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 20)	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 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 20)	33	2,716	148	–	–	2,897	–	2,897
Increase in share capital from issuance of GDRs (Note 20)	1,500	–	(1,500)	–	–	–	–	–
Dividends to shareholders of the Bank (Note 20)	–	–	–	–	(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**
Total comprehensive income	–	–	–	12,058	178,595	190,653	3,483	194,136
Depreciation of revaluation reserve, net of tax	–	–	–	(622)	622	–	–	–
Increase in share capital arising from share-based payments	–	30,213	602	–	–	30,815	–	30,815
Issue of share capital (Note 20)	3,635	70,313	–	–	–	73,948	–	73,948
Conversion of shares following the Tender Offer	–	54,458	2,507	–	–	56,965	–	56,965
Transactions costs recognised directly in equity	–	(3,325)	–	–	–	(3,325)	–	(3,325)
Dividends to shareholders of the Bank (Note 20)	–	–	–	–	(25,267)	(25,267)	–	(25,267)
Dilution of interests in subsidiaries	–	–	–	15	–	15	128	143
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	(86)	–	(86)	749	663
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	(22)	–	(22)	(682)	(704)
Sale of treasury shares	–	89	5	–	–	94	–	94
Purchase of treasury shares	–	(9,853)	(432)	–	–	(10,285)	–	(10,285)
31 December 2012	**36,513**	**615,627**	**(464)**	**25,821**	**408,538**	**1,086,035**	**43,751**	**1,129,786**

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

(Thousands of Georgian Lari)

	Notes	2012	2011	2010
Cash flows from operating activities				
Interest received		553,090	494,782	412,407
Interest paid		(270,691)	(244,478)	(194,622)
Fees and commissions received		109,278	93,541	74,265
Fees and commissions paid		(22,210)	(18,204)	(10,845)
Insurance premiums received		79,007	46,070	46,159
Insurance claims paid		(55,197)	(26,106)	(32,007)
Healthcare revenue received		54,376	5,700	2,208
Cost of healthcare services paid		(31,030)	(3,242)	(1,632)
Revenue received from sale of goods		41,533	22,470	18,144
Cost of sales of goods		(30,868)	(12,109)	(9,050)
Net realised gains (losses) from trading securities		375	(236)	2,267
Net realised gains from investment securities available-for-sale		2,075	1,721	789
Net realised gains from foreign currencies		33,389	45,694	33,651
Recoveries of loans to customers previously written off	10	29,979	28,849	42,739
Other income received (expenses paid)		5,949	15,266	(1,819)
Salaries and other employee benefits paid		(109,383)	(96,011)	(93,204)
General and administrative and operating expenses paid		(67,970)	(69,269)	(70,906)
Cash flows from operating activities before changes in operating assets and liabilities		**321,702**	**284,438**	**218,544**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(99,925)	(179,682)	(45,090)
Loans to customers		(575,378)	(239,413)	(813,482)
Finance lease receivables		(9,262)	(49,095)	8,252
Prepayments and other assets		(59,301)	(63,668)	100
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		761,167	(213,068)	190,994
Amounts due to customers		(52,871)	708,242	731,184
Other liabilities		(28,243)	(32,707)	21,981
Net cash flows from operating activities before income tax		**257,889**	**215,047**	**312,483**
Income tax paid		(3,282)	(7,000)	(3,144)
Net cash flows from operating activities		**254,607**	**208,047**	**309,339**
Cash flows (used in) from investing activities				
Acquisition of subsidiaries, net of cash acquired	5	(9,008)	408	(139)
Proceeds from sale of subsidiary		–	8,747	–
Proceeds from sale of investment securities available-for-sale		221,973	20,625	1,518
Purchase of investment securities		(265,320)	(138,529)	(28,769)
Proceeds from sale of investments in associates		170	332	–
Proceeds from sale of investment properties	12	15,622	7,889	5,490
Proceeds from sale of property and equipment and intangible assets		–	–	13,312
Purchase of property and equipment and intangible assets		(60,880)	(76,239)	(41,839)
Net cash flows used in investing activities		**(97,443)**	**(176,767)**	**(50,427)**

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2012

(Thousands of Georgian Lari)

	Notes	2012	2011	2010
Cash flows (used in) from financing activities				
Dividends paid		(25,267)	(9,169)	–
Purchase of treasury shares		(10,285)	(34,598)	(17,986)
Sale of treasury shares		94	28,044	7,552
Proceeds from sale of non-controlling interest in existing subsidiary		663	2,453	–
Purchase of additional interests by non-controlling shareholders		–	–	11,973
Purchase of additional interests in existing subsidiaries, net of cash acquired		(704)	–	(6,854)
Net cash used in financing activities		**(35,499)**	**(13,270)**	**(5,315)**
Effect of exchange rates changes on cash and cash equivalents		121	(863)	98
Net increase in cash and cash equivalents		**121,786**	**17,147**	**253,695**
Cash and cash equivalents, beginning	7	**628,731**	**611,584**	**357,889**
Cash and cash equivalents, ending	7	**750,517**	**628,731**	**611,584**

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

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 accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2012 the Bank has 194 operating outlets in all major cities of Georgia (31 December 2011: 158, 31 December 2010: 142). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

The Bank is the parent of a group of companies (the "Group") incorporated in Georgia and Belarus. Primary business activities of the Group include providing banking, leasing, insurance, healthcare, brokerage and wealth management services, to corporate and individual customers. The list of the companies included in the Group is provided in Note 2.

In December 2011, Bank of Georgia Holdings PLC ("BGH"), a public limited liability company newly incorporated in England and Wales, launched the Tender Offer (the "Tender Offer") to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued and to be issued share capital, including those shares represented by Global Depositary Receipts ("GDRs"), of the Bank. Following the successful completion of the Tender Offer on 28 February 2012 and subsequent acquisitions of the Bank's remaining shares held by non-controlling shareholders by the Bank, BGH holds 99.62% of the share capital of the Bank as at 31 December 2012, representing the Bank's ultimate parent company. The shares of BGH ("BGH Shares") were admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012 (the "Admission").

Following the Tender Offer, GDR Programme was cancelled in June 2012.

The treasury shares kept by the Bank for the purposes of its future employee share-based compensation as of the Tender Offer expiration date have been fully converted into the BGH newly issued shares.

As at 31 December 2012, 31 December 2011 and 31 December 2010, the following shareholders owned more than 4% of the total outstanding shares of the Group. Other shareholders individually owned less than 4% of the outstanding shares.

Shareholder	*31 December 2012*	*31 December 2011*	*31 December 2010*
Bank of Georgia Holdings Plc	99.62%	–	–
Bank of New York (Nominees), Limited	–	91.45%	90.50%
East Capital Financial Institutions	–	4.16%	4.36%
Others	0.38%	4.39%	5.14%
Total*	**100.00%**	**100.00%**	**100.00%**

For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the Bank.

1. Principal Activities (continued)

As a result of the Tender Offer, the members of the Supervisory Board and Management Board of the Bank, no longer owned shares of the Bank as at 31 December 2012. As at 31 December 2011, the members of the Supervisory Board and Management Board of the Bank owned 474,246 shares and GDRs or 1.44% of the Bank, (2010: 448,232 shares and GDRs or 1.43%). 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*
Irakli Gilauri	194,379	200,379
Allan Hirst	60,434	56,311
Sulkhan Gvalia	58,638	60,638
Avto Namicheishvili	39,823	34,823
Kaha Kiknavelidze	26,337	22,509
David Morrison	20,357	15,351
Neil Janin	15,729	3,945
Giorgi Chiladze *	14,000	14,333
Mikheil Gomarteli	10,634	10,634
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
Total	**474,246**	**448,232**

**** Resigned from the Management Board of the Bank on 26 March 2012***

***** In February 2013, the Bank announced that service contract of Vasil Revishvili will not be extended after its expiration on 1 May 2013***

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2012 reporting.

The Bank and its Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari, while the Bank's 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. No interest income or expense arose in relation to financial assets or liabilities at fair value through profit or loss.

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

Going concern

The Group's Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2. Basis of Preparation (continued)

Subsidiaries and associates

The consolidated financial statements as at 31 December 2012, 31 December 2011 and 31 December 2010 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held						
Subsidiaries	***31 December 2012***	***31 December 2011***	***31 December 2010***	***Country of incorporation***	***Industry***	***Date of incorporation***	***Date of acquisition***
PJSC Bank Pershyi (formerly known as JSC BG Bank) (g)	19.4%	19.4%	99.4%	Ukraine	Banking	26/01/1994	1/10/2007
Valimed, Unitarnoe Predpreyatie (originally LLC)	–	(a)	100.0%	Belarus	Investment	14/09/2000	3/06/2008
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	(b)	100.0%	100.0%	Georgia	Tax consulting	25/09/2007	–
⇒ BG Commodities (Georgia), LLC	–	(c)	100.0%	Georgia	Commodity Trading	16/04/2009	–
⇒ BG Commodities (Ukraine), LLC	(d)	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	–
⇒ BG Capital (Ukraine), LLC	(d)	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%	79.99%	Belarus	Banking	16/04/1992	3/06/2008
⇒ BNB Leasing, LLC	99.9%	99.9%	99.9%	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%	100.0%	–	Georgia	Various	22/06/2010	1/10/2011
⇒ JSC My Family Clinic	51.0%	51.0%	100.0%	Georgia	Healthcare	3/10/2005	–
⇒ JSC Kutaisi St. Nicholas Surgical and Oncological Hospital (Formerly known as JSC Kutaisi St. Nicholas Surgery Hospital)	71.87%	55.0%	55.0%	Georgia	Medical services	3/11/2000	20/05/2008
⇒ Kutaisi Regional Clinical Hospital, LLC	100.0%	100.0%	100.0%	Georgia	Medical services	19/07/2010	1/10/2010
⇒ JSC Zugdidi multi profile Clinical Hospital "Republic"	100.0%	100.0%	–	Georgia	Medical services	11/06/1998	29/11/2011
⇒ JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	66.7	66.7%	–	Georgia	Medical services	05/05/2003	29/11/2011
⇒ JSC Chkhorotskhu Regional Central Hospital	100.0%	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%	66.7%	–	Georgia	Medical services	15/10/2004	09/12/2011
⇒ E.K. Pipia Central Hospital of Tsalenjikha, LLC	100.0%	100.0%	–	Georgia	Medical services	01/09/1999	09/12/2011
⇒ Martvili Multi profile Hospital, LLC	100.0%	100.0%	–	Georgia	Medical services	17/03/2000	09/12/2011
⇒ Abasha Outpatient-Polyclinic Union, LLC	100.0%	100.0%	–	Georgia	Medical services	16/03/2000	09/12/2011
⇒ Tskaltubo Regional Hospital, LLC	66.7%	66.7%	–	Georgia	Medical services	29/09/1999	09/12/2011
⇒ Khobi Central Regional Hospital, LLC	100.0%	100.0%	–	Georgia	Medical services	13/07/2000	09/12/2011
⇒ Imedi L Dent, LLC	100.0%	–	–	Georgia	Medicine	17/01/2005	1/05/2012
⇒ Aliance, LLC	100.0%	–	–	Georgia	Various	1/03/2000	1/05/2012
⇒ Green Way, LLC	100.0%	–	–	Georgia	Various	9/08/2008	1/05/2012
⇒ Centromed, LLC	100.0%	–	–	Georgia	Medicine	9/07/2010	1/05/2012
⇒ Unimed Achara, LLC	100.0%	–	–	Georgia	Medicine	29/06/2010	1/05/2012
⇒ Unimedi Samtskhe, LLC	100.0%	–	–	Georgia	Medicine	29/06/2010	1/05/2012
⇒ Unimedi Kakheti, LLC	100.0%	–	–	Georgia	Medicine	29/06/2010	1/05/2012
Georgian Leasing Company, LLC	100.0%	100.0%	100.0%	Georgia	Leasing	29/10/2001	31/12/2004
JSC GC Holdings (formerly LLC)	100.0%	100.0%	100.0%	Georgia	Investment	29/10/2007	–
⇒ JSC Georgian Card	56.2%	71.78%	71.78%	Georgia	Card processing	17/01/1997	20/10/2004
⇒ Direct Debit Georgia, LLC	100.0%	100.0%	100.0%	Georgia	Electronic payment services	7/03/2006	–
⇒ MetroNet, LLC	100.0%	100.0%	100.0%	Georgia	Communication services	23/04/2007	–
JSC Liberty Consumer	67.49%	67.08%	65.3%	Georgia	Investment	24/05/2006	–
⇒ JSC Teliani Valley	51.23%	51.14%	52.33%	Georgia	Winery	30/06/2000	28/02/2007
⇒ Teliani Trading (Georgia), LLC	100.0%	100.0%	100.0%	Georgia	Distribution	10/01/2006	27/03/2007
⇒ Teliani Trading (Ukraine), LLC	100.0%	100.0%	100.0%	Ukraine	Distribution	03/10/2006	31/12/2007
⇒ Le Caucase, LLC	100.0%	100.0%	100.0%	Georgia	Cognac Production	23/09/2006	20/03/2007
⇒ Kupa, LLC	70.0%	70.0%	70.0%	Georgia	Oak Barrel Production	12/10/2006	20/03/2007

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Subsidiaries	Proportion of voting rights and ordinary share capital held			Country of incorporation	Industry	Date of incorporation	Date of acquisition
	31 December 2012	31 December 2011	31 December 2010				
⇒ JSC Intertour	99.94%	97.02%	97.02%	Georgia	Travel agency	29/03/1996	25/04/2006
⇒ Intertour Ukraine, LLC	–	(a)	100.0%	Ukraine	Travel agency	19/02/2010	–
⇒ Holiday Travel, LLC	(e)	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	(f)	51.0%	51.0%	Georgia	Newspaper Retail	31/10/1995	1/01/2009
JSC SB Real Estate	100.0%	100.0%	100.0%	Georgia	Real estate	27/09/2006	–
⇒ Caucasus Autohause, LLC	100.0%	100.0%	–	Georgia	Real estate	29/03/2011	–
⇒ Tamarashvili 13, LLC	100.0%	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	–
⇒ 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	–
⇒ Bank of Georgia Representative Office UK Limited	100.0%	100.0%	100.0%	United Kingdom	Information Sharing and Market Research	17/08/2010	–
⇒ Professional Basketball Club Dinamo Tbilisi, LLC	100.0%	100.0%	–	Georgia	Investment	01/10/2011	–
⇒ JSC United Securities Registrar of Georgia	100.0%	100.0%	100.0%	Georgia	Registrar	29/05/2006	–
Bank of Georgia Representative Office Hungary	100.0%	–	–	Hungary	Representative Office	18/06/2012	–

(a) No longer Group subsidiary due to sale in 2011
(b) Merged to JSC BG Capital (Georgia) in 2012
(c) BG Commodities (Georgia), LLC merged to JSC BG Capital in 2011
(d) Had been liquidated in 2012
(e) Merged to JSC Intertour in 2012
(f) No longer Group subsidiary due to sale in 2012
(g) No longer Group subsidiary due to disposal of controlling stake in 2011

Associates	Proportion of voting rights and ordinary share capital held			Country of incorporation	Industry	Date of incorporation	Date of acquisition
	31 December 2012	31 December 2011	31 December 2010				
JSC N Tour	30.0%	30.0%	30.0%	Georgia	Travel services	1/11/2001	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	10.0%	25.0%	25.0%	Georgia	Food retail	30/05/2005	29/05/2008
JSC iCall	27.0%	27.0%	27.0%	Georgia	Call center	22/03/2005	22/11/2006
JSC Caucasus Automotive Retail	–	30.0%	36.1%	Georgia	Car retail	18/04/2008	2/05/2008
Style +, LLC	32.5%	32.5%	32.5%	Georgia	Advertising	1/08/2005	7/08/2008

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS during the year:

Amendments to IFRS 7 "Financial Instruments: Disclosures"
The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Group's financial statements to evaluate the risk exposures relating to those assets. The amendment has no impact on the Group's disclosures, financial position or performance.

Other amendments resulting from Improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter

3. Summary of Significant Accounting Policies (continued)

Basis of consolidation

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 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.

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.

3. Summary of Significant Accounting Policies (continued)

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.

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.

3. Summary of Significant Accounting Policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are 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 interest rate swaps and gains less losses from foreign currencies translation differences, depending on the nature of the instrument.

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 recognised in the consolidated income statement.

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of the Bank liquidation. Subordinated debt is carried at amortised cost.

Leases

i. Finance – Group as lessor

The Group recognises finance lease receivables in the consolidated statement of financial position at a value equal to the net investment in the 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 recognised 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 recognised 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 recognised 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.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

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

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

Amounts due from credit institutions and loans to customers

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

If there is 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 (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.

Write-off of loans to customers

All retail loans, except mortgages, are written off when overdue by more than 365 days. Retail mortgage loans are written off when overdue by more than 150 days. Write off of corporate loans overdue by more than 150 days is subject to management discretion and is evaluated on a case by case basis, taking into account the current and expected positions of the loan/borrower.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

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

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

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

Renegotiated loans

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

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

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognises 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 cases where the 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.

Derecognition 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.

3. Summary of Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities (continued)

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

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition 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.

3. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

Leasehold improvements are amortised over the life of the related leased asset.

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

3. Summary of Significant Accounting Policies (continued)

Goodwill

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

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

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

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

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

Intangible assets

The Group's intangible assets include computer software and licenses.

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 recognised 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 recognised 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.

3. Summary of Significant Accounting Policies (continued)

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 types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognised 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 recognised 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 recognised 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 recognised as at the beginning and end of that period.

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions (continued)

No expense is recognised 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 BGH's shares) which are treated as vesting irrespective whether 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 recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised 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 purchase 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.

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 Group's right to receive the payment is established.

Insurance premium income

For non-life insurance business, premiums written are recognised 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.

Healthcare revenue

Healthcare 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 on an accruals basis. When services are provided in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalent transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods of services given up, adjusted by the amount of any cash or cash equivalents transferred.

Revenue from sale of goods

Revenue from sale of goods comprises revenue from sale of a completed property and other finished goods.

Revenue from sale of a completed property is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer. If, however, the legal terms of the contract are such that the construction represents the continuous transfer of work in progress to the purchaser, the percentage of completion method of revenue recognition is applied and revenue is recognised as work progresses.

Revenue from the sale of other finished goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Continuous transfer of work in progress is applied when: (a) the buyer controls the work in progress, typically when the land on which the development is taking place is owned by the final customer and (b) all significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically when buyer cannot put the incomplete property back to the Group. In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Reclassifications

Due to the increased material size of healthcare business and other revenues from sale of goods, separate captions have been added to the income statement with a summary of these revenues and respective direct costs. The following reclassifications have been made to the year ended 31 December 2011 and 31 December 2010 consolidated income statements to conform with the year ended 31 December 2012 presentational requirements:

Year Ended	Caption Consolidated Income Statement:	*As previously reported*	*Reclassification*	*As reclassified*
31 December 2011	Healthcare revenue	–	5,700	5,700
31 December 2011	Revenue from sale of goods	–	22,470	22,470
31 December 2011	Other operating income	29,052	(20,285)	8,767
31 December 2011	Cost of healthcare services	–	(3,242)	(3,242)
31 December 2011	Cost of sales	–	(12,109)	(12,109)
31 December 2011	Salaries and other employee benefits	(119,111)	4,489	(114,622)
31 December 2011	Other operating expenses	(9,324)	2,977	(6,347)
31 December 2010	Healthcare revenue	–	2,208	2,208
31 December 2010	Revenue from sale of goods	–	18,144	18,144
31 December 2010	Other operating income	21,927	(11,302)	10,625
31 December 2010	Cost of healthcare services	–	(1,632)	(1,632)
31 December 2010	Cost of sales	–	(9,050)	(9,050)
31 December 2010	Salaries and other employee benefits	(104,551)	666	(103,885)
31 December 2010	General and administrative expenses	(61,000)	432	(60,568)
31 December 2010	Other operating expenses	(6,253)	534	(5,719)

As a result of reclassifications made in the consolidated income statement for the year ended 31 December 2011 and 31 December 2010, the following reclassifications have been made to the year ended 31 December 2011 and 31 December 2010 consolidated statements of cash flows as well, in order to conform with the year ended 31 December 2012 presentational requirements:

Year Ended	Consolidated Statement of Cash Flows:	*As previously reported*	*Reclassification*	*As reclassified*
31 December 2011	Healthcare revenue received	–	5,700	5,700
31 December 2011	Revenue received from sale of goods	–	22,470	22,470
31 December 2011	Other operating income received (expenses paid)	35,551	(20,285)	15,266
31 December 2011	Cost of healthcare services paid	–	(3,242)	(3,242)
31 December 2011	Cost of sales of goods	–	(12,109)	(12,109)
31 December 2011	Salaries and other employee benefits paid	(100,500)	4,489	(96,011)
31 December 2011	General and administrative and operating expenses paid	(72,246)	2,977	(69,269)
31 December 2010	Healthcare revenue received	–	2,208	2,208
31 December 2010	Revenue received from sale of goods	–	18,144	18,144
31 December 2010	Other operating income received (expenses paid)	9,483	(11,302)	(1,819)
31 December 2010	Cost of healthcare services paid	–	(1,632)	(1,632)
31 December 2010	Cost of sales of goods	–	(9,050)	(9,050)
31 December 2010	Salaries and other employee benefits paid	(93,870)	666	(93,204)
31 December 2010	General and administrative and operating expenses paid	(71,872)	966	(70,906)

3. Summary of Significant Accounting Policies (continued)

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. The Bank's functional currency is US Dollar. 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 2012, 31 December 2011 and 31 December 2010 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to UAH (10)*	*Lari to BYR (10,000)*
31 December 2012	2.6653	1.6567	2.1825	2.0727	1.9811
31 December 2011	2.5776	1.6703	2.1614	2.0905	2.0004
31 December 2010	2.7393	1.7728	2.3500	2.2272	5.9093

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 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 ("BNB") 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	390.2
2007	112.1	348.5
2008	113.3	307.2
2009	110.1	279.6
2010	109.9	254.1
2011	208.7	121.8
2012	121.8	100.0

All income and expenses, profits and losses 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 BNB's net non-monetary position is included in the income statement in net non-operating expenses.

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective

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

IFRS 9 "Financial Instruments"

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, at the time the other phases are issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — *Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group is currently evaluating the possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. 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. The Group expects that adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. In particular, the Group will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will have no impact on Group's financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. The Group is currently evaluating the possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment is effective for annual periods beginning on or after 1 January 2013.

3. Summary of Significant Accounting Policies (continued)

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

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment is effective for annual periods beginning on or after 1 January 2013.

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 involve 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.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment is effective for annual periods beginning on or after 1 July 2012.

Amendments to IFRS 7 Disclosures – Offsetting Financial assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with *IAS 32 Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and are effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact on the Group by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Group's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects now, but the Group will be evaluating the impact between now and the effective date.

These amendments will become effective for annual periods beginning on or after 1 January 2014.

Amendment to IFRS 1 – Government loans

These amendments require first-time adopters to apply the requirements of *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. The amendment will have no impact on the Group.

3. Summary of Significant Accounting Policies (continued)

Improvements to IFRS

The amendments are effective for annual periods beginning on or after 1 January 2013. They will not have an impact on the Group.

- *IFRS 1 First-time Adoption of International Financial Reporting Standards:* This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- *IAS 1 Presentation of Financial Statements*: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- *IAS 16 Property Plant and Equipment*: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property; plant and equipment are not inventory.
- *IAS 32 Financial Instruments, Presentation*: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- *IAS 34 Interim Financial Reporting*: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, the supervisory board members and management use their judgment and make estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated 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.

Measurement of fair value of investment properties and property and equipment

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

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

The Group considers the fair value of collateral when estimating the amount of impairment loss for collateralized loans and receivables and finance lease receivables. 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.

In order to exclude post 2008 Georgia – Russia war and global financial crisis extraordinary trends from the assessment of collective impairment of loans, the Bank amended its approach in 2012. Namely, the historical loss rates that are applied for collective impairment are now calculated based on three-year history of net losses (including reversals) as opposed to five-seven-year history of net losses under previous approach. The impact of this change on profit from continuing operations before income tax expense for the year ended 31 December 2012 is 20.1 million GEL.

5. Business Combinations

Acquisitions in 2012

JSC Insurance Company Imedi L International

On 24 April 2012 JSC Insurance Company Aldagi BCI ("Acquirer"), a wholly owned subsidiary of the Group, fully acquired Meta LLC, which owned 51% of JSC Insurance Company Imedi L International ("Acquiree"), an insurance company operating in Georgia, thus acquiring control over the Acquiree. On 30 April 2012 the Acquirer purchased 34% stake in the Acquiree from the European Bank for Reconstruction and Development (EBRD). On 21 May 2012 the Acquirer purchased 89.58% shares in Imedi L Holding LLC, which owned 9.6% of the Acquiree's shares, thus bringing the total ownership stake in the Acquiree to 94.6%. On 24 July 2012 the remaining stake of the Acquiree were purchased from LTD Saimedo. On 16 November 2012 the Acquiree was merged with the Acquirer. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from the Acquiree as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	617
Amounts due from credit institutions	7,042
Insurance premiums receivable[1]	19,438
Reinsurance assets	795
Property and equipment	55,460
Intangible assets	113
Deferred acquisition costs	1,241
Other assets	7,810
	92,516
Amounts owed to credit institutions	6,355
Insurance contracts liabilities	31,542
Other insurance liabilities	1,861
Pension benefit obligations	46
Current income tax liabilities	46
Accruals and deferred income	2,181
Other liabilities	14,491
	56,522
Total identifiable net assets	**35,994**
Goodwill arising on business combination (note 14)	482
Consideration given[2]	**36,476**

The net cash outflow on acquisition was as follows:

	2012
Cash paid	9,625
Cash acquired with the subsidiary	(617)
Net cash outflow	**9,008**

The Group decided to increase their presence and investment in Georgia's underpenetrated and growing insurance and healthcare sector, by acquiring the country's third largest insurance company, thus securing a leading position in the sector. Management considers that the deal will have positive impact on the value of the Group.

Since the acquisition date, the Group recorded GEL 306,173 and GEL 108,865 of revenue and profit, respectively. In the same period, GEL 9,263 and GEL 2,806 of revenue and profit, respectively comes from the Acquiree. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 335,187 and GEL 105,803 of revenue and profit respectively.

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.

[1] The fair value of the insurance premium receivables amounted to GEL 19,438. The gross amount of receivables is GEL 24,825. GEL 5,387 of the premium receivables has been impaired.

[2] Consideration comprised of GEL 26,879 pre-existing loan to JSC Insurance Company Imedi L International less GEL 28 pre-existing deposit and cash payments of GEL 9,625.

6. Segment Information

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

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

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

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

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

Insurance - Principally providing wide-scale non-life insurance services to corporate clients and insured individuals.

Healthcare - Principally providing wide-scale healthcare services to clients and insured individuals.

Affordable Housing - Comprising JSC SB Real Estate, principally developing and selling affordable residential apartments and also, holding investment properties repossessed by the Bank from defaulted borrowers and managing those properties

BG Capital - 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), nowadays principally providing retail and corporate banking services in Belarus.

Liberty Consumer - 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 - Comprising JSC Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Bank on behalf of the Bank.

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the consolidated financial statements.

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

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2012:

	Strategic				*Synergistic*				*Non-Core*			*Inter – segment transactions and balances*	*Total*
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance*	*Healthcare*	*Affordable Housing*	*BG Capital*	*BNB*	*Liberty Consumer*	*Other*		
Net interest income (expense)	92,276	174,360	12,644	–	1,825	(6,481)	147	21	12,074	(578)	(2,171)	–	284,117
Net fees and commission income (expense)	28,701	53,563	523	–	(107)	–	196	456	3,809	(61)	(12)	–	87,068
Net insurance revenue	–	–	–	–	29,661	–	–	–	–	–	–	4,477	34,138
Net healthcare revenue	–	–	–	–	–	29,768	–	–	–	–	–	(6,422)	23,346
Net revenue from sale of goods	–	–	–	–	–	–	2,936	–	–	7,729	–	–	10,665
Net gains (losses) from foreign currencies	29,819	14,985	682	–	238	(1,090)	(145)	(64)	5,306	(154)	(6)	–	49,571
Other revenues	3,996	3,365	73	–	1,000	257	1,442	240	68	217	1,630	(2,357)	9,931
Revenue	**154,792**	**246,273**	**13,922**	**–**	**32,617**	**22,454**	**4,576**	**653**	**21,257**	**7,153**	**(559)**	**(4,302)**	**498,836**
Operating expenses	(51,323)	(109,041)	(4,665)	–	(17,437)	(17,917)	(2,381)	(1,155)	(10,327)	(5,934)	(2,662)	4,302	(218,540)
Operating income before cost of credit risk	**103,469**	**137,232**	**9,257**	**–**	**15,180**	**4,537**	**2,195**	**(502)**	**10,930**	**1,219**	**(3,221)**	**–**	**280,296**
Cost of credit risk	(29,490)	(12,482)	727	–	(1,502)	(802)	(219)	–	(1,306)	(136)	–	493	(44,717)
Net operating income	**73,979**	**124,750**	**9,984**	**–**	**13,678**	**3,735**	**1,976**	**(502)**	**9,624**	**1,083**	**(3,221)**	**493**	**235,579**
Net non-operating (expenses) income	(8,415)	(6,828)	(305)	–	–	440	282	–	(443)	(4,365)	–	–	(19,634)
Profit before income tax (expense) benefit	**65,564**	**117,922**	**9,679**	**–**	**13,678**	**4,175**	**2,258**	**(502)**	**9,181**	**(3,282)**	**(3,221)**	**493**	**215,945**
Income tax (expense) benefit	(9,936)	(16,392)	(1,339)	–	(2,068)	(242)	(307)	(95)	(2,367)	(889)	435	–	(33,200)
Profit for the year	**55,628**	**101,530**	**8,340**	**–**	**11,610**	**3,933**	**1,951**	**(597)**	**6,814**	**(4,171)**	**(2,786)**	**493**	**182,745**
Assets and liabilities													
Total assets	2,604,889	2,513,397	43,169	6,368	186,717	170,415	105,899	22,394	185,859	37,924	34,986	(184,999)	5,727,018
Total liabilities	1,975,189	1,709,727	605,183	1,354	151,287	113,203	42,838	16,431	139,356	12,114	17,043	(186,493)	4,597,232
Other segment information													
Property and equipment	5,886	20,593	438	–	3,581	25,769	203	197	340	1,616	1,563	–	60,186
Intangible assets	906	3,678	50	–	441	150	20	3	186	266	1	–	5,701
Capital expenditure	**6,792**	**24,271**	**488**	**–**	**4,022**	**25,919**	**223**	**200**	**526**	**1,882**	**1,564**	**–**	**65,887**
Depreciation	(4,160)	(14,412)	(316)	–	(699)	(3,342)	(121)	(15)	(910)	(940)	(112)	–	(25,027)
Amortization	(667)	(2,643)	(37)	–	(101)	–	–	(6)	(116)	(6)	(3)	–	(3,579)
Impairment	–	(15)	–	–	–	–	–	–	–	(939)	–	–	(954)
Investments in associates	–	–	–	–	–	–	–	–	–	2,441	–	–	2,441
Share of loss of associates	–	–	–	–	–	–	–	–	–	(149)	–	–	(149)

6. Segment Information (continued)

The following tables present income statement 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*			*Inter – segment transactions and balances*	*Total*
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance*	*Healthcare*	*Affordable Housing*	*BG Capital*	*BNB**	*Liberty Consumer*	*Other*		
Net interest income (expense)	77,900	144,396	6,000	–	(249)	(143)	(805)	205	13,183	(1,202)	–	–	239,285
Net fees and commission income	20,559	49,512	604	–	–	–	–	2,634	2,028	–	–	–	75,337
Net insurance revenue	–	–	–	–	17,725	–	–	–	–	–	–	13	17,738
Net healthcare revenue	–	–	–	–	–	4,358	–	–	–	–	–	(1,900)	2,458
Net revenue from sale of goods	–	–	–	–	–	–	–	–	–	10,361	–	–	10,361
Net gains (losses) from foreign currencies	27,383	12,992	740	–	(779)	–	(51)	685	35,764	(293)	–	–	76,441
Other revenues	5,275	3,996	24	–	1,294	802	3,378	196	(15)	710	85	(3,612)	12,133
Revenue	**131,117**	**210,896**	**7,368**	**–**	**17,991**	**5,017**	**2,522**	**3,720**	**50,960**	**9,576**	**85**	**(5,499)**	**433,753**
Operating expenses	(56,282)	(107,936)	(3,967)	–	(12,382)	(3,582)	(2,029)	(4,792)	(13,321)	(11,110)	(263)	5,499	(210,165)
Operating income before cost of credit risk	**74,835**	**102,960**	**3,401**	**–**	**5,609**	**1,435**	**493**	**(1,072)**	**37,639**	**(1,534)**	**(178)**	**–**	**223,588**
Cost of credit risk	(21,553)	2,575	87	–	(1,885)	–	(32)	–	(1,398)	(335)	–	345	(22,196)
Net operating income	**53,282**	**105,535**	**3,488**	**–**	**3,724**	**1,435**	**461**	**(1,072)**	**36,241**	**(1,869)**	**(178)**	**345**	**201,392**
Net non-operating (expenses) income	(6,318)	(6,224)	(197)	–	702	1,402	8	–	(18,225)	(486)	–	–	(29,338)
Profit before income tax (expense) benefit from continuing operations	**46,964**	**99,311**	**3,291**	**–**	**4,426**	**2,837**	**469**	**(1,072)**	**18,016**	**(2,355)**	**(178)**	**345**	**172,054**
Income tax (expense) benefit	(4,896)	(9,582)	(318)	–	(702)	(43)	178	31	(6,009)	36	180	–	(21,125)
Profit for the period from continuing operations	**42,068**	**89,729**	**2,973**	**–**	**3,724**	**2,794**	**647**	**(1,041)**	**12,007**	**(2,319)**	**2**	**345**	**150,929**
Net loss from discontinued operations	(7,807)	(7,183)	(229)	–	–	–	–	–	–	–	–	–	(15,219)
Profit for the year	**34,261**	**82,546**	**2,744**	**–**	**3,724**	**2,794**	**647**	**(1,041)**	**12,007**	**(2,319)**	**2**	**345**	**135,710**
Assets and liabilities													
Total assets	2,181,069	2,166,428	40,447	6,596	98,832	73,378	74,620	20,319	94,328	45,367	534	(136,657)	4,665,261
Total liabilities	2,014,512	1,278,311	454,178	1,163	76,891	50,862	32,125	13,394	56,947	11,926	7	(137,658)	3,852,658
Other segment information													
Property and equipment	12,992	34,638	663	–	1,814	13,085	11,233	89	1,418	831	–	–	76,763
Intangible assets	1,524	4,283	77	–	267	29	15	12	168	68	–	–	6,443
Capital expenditure	**14,516**	**38,921**	**740**	**–**	**2,081**	**13,114**	**11,248**	**101**	**1,586**	**899**	**–**	**–**	**83,206**
Depreciation	5,342	14,283	255	–	679	208	71	120	1,641	994	–	–	23,593
Amortization	822	2,572	38	–	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 statement 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*			*Inter – segment transactions and balances*	*Total*
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance*	*Healthcare*	*Affordable Housing*	*BG Capital*	*BNB**	*Liberty Consumer*	*Other*		
Net interest income (expense)	76,023	112,175	3,054	–	(789)	62	(2,590)	548	21,094	(1,059)	–	–	208,518
Net fees and commission income	16,152	42,475	487	–	86	–	–	1,270	2,950	–	–	–	63,420
Net insurance revenue	–	–	–	–	15,808	–	–	–	–	–	–	855	16,663
Net healthcare revenue	–	–	–	–	–	3,238	–	–	–	–	–	(2,662)	576
Net revenue from sale of goods	–	–	–	–	–	–	–	–	–	9094	–	–	9,094
Net gains (losses) from foreign currencies	21,382	9,233	641	–	267	–	(2,539)	2,057	2,646	(92)	154	–	33,749
Other revenues	2,965	5,343	139	–	376	218	3,173	3,085	495	(456)	–	(2,357)	12,981
Revenue	**116,522**	**169,226**	**4,321**	**–**	**15,748**	**3,518**	**(1,956)**	**6,960**	**27,185**	**7,487**	**154**	**(4,164)**	**345,001**
Operating expenses	(43,011)	(98,404)	(4,876)	–	(11,112)	(1,934)	(1,791)	(5,406)	(26,288)	(9,476)	(1)	4,164	(198,135)
Operating income before cost of credit risk	**73,511**	**70,822**	**(555)**	**–**	**4,636**	**1,584**	**(3,747)**	**1,554**	**897**	**(1,989)**	**153**	–	**146,866**
Cost of credit risk	(11,517)	(29,574)	2,630	–	(540)	–	–	–	(4,502)	(3,423)	–	(772)	(47,698)
Net operating income	**61,994**	**41,248**	**2,075**	–	**4,096**	**1,584**	**(3,747)**	**1,554**	**(3,605)**	**(5,412)**	**153**	**(772)**	**99,168**
Net non-operating (expenses) income	(393)	(570)	(17)	–	–	–	–	–	–	255	–	–	(725)
Profit before income tax (expense) benefit	**61,601**	**40,678**	**2,058**	–	**4,096**	**1,584**	**(3,747)**	**1,554**	**(3,605)**	**(5,157)**	**153**	**(772)**	**98,443**
Income tax (expense) benefit	(9,878)	(5,936)	(338)	–	(630)	(32)	128	78	38	806	(12)	–	(15,776)
Profit for the year	**51,723**	**34,742**	**1,720**	–	**3,466**	**1,552**	**(3,619)**	**1,632**	**(3,567)**	**(4,351)**	**141**	**(772)**	**82,667**
Assets and liabilities													
Total assets	1,718,334	1,743,326	43,083	–	77,357	11,523	33,594	20,843	378,392	47,278	2	(68,810)	4,004,922
Total liabilities	1,577,555	1,184,560	261,638	–	58,893	4,673	3,355	11,975	264,600	13,786	11	(69,465)	3,311,581
Other segment information													
Property and equipment	6,157	19,006	482	–	401	2,889	34	144	6,743	578	–	–	36,434
Intangible assets	1,347	3,540	85	–	35	4	6	3	355	3,473	–	–	8,848
Capital expenditure	**7,504**	**22,546**	**567**	**–**	**436**	**2,893**	**40**	**147**	**7,098**	**4,051**	**–**	**–**	**45,282**
Depreciation	(5,523)	(15,479)	(487)	–	(482)	(152)	(125)	(163)	(1,190)	(909)	–	–	(24,510)
Amortization	(644)	(2,387)	(49)	–	(29)	–	–	(29)	(305)	(10)	–	–	(3,453)
Impairment	(120)	(307)	(8)	–	–	–	–	–	–	–	–	–	(435)
Investments in associates	–	–	–	–	–	–	–	–	–	5,632	–	–	5,632
Share of profit of associates	–	–	–	–	–	–	–	–	–	255	–	–	255

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

(Thousands of Georgian Lari)

7. Cash and Cash Equivalents

	2012	*2011*	*2010*
Cash on hand	302,956	163,001	161,749
Current accounts with central banks, excluding obligatory reserves	111,998	54,830	58,958
Current accounts with other credit institutions	192,176	304,910	161,290
Time deposits with credit institutions with maturity of up to 90 days	143,387	105,990	229,587
Cash and cash equivalents	**750,517**	**628,731**	**611,584**

As at 31 December 2012 GEL 273,638 (2011: GEL 304,231, 2010: GEL 367,956) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 5.25% interest per annum on these deposits (2011: up to 5.1%, 2010: up to 1.74%).

8. Amounts Due from Credit Institutions

	2012	*2011*	*2010*
Obligatory reserves with central banks	323,099	270,335	90,378
Time deposits with maturity of more than 90 days	67,284	14,318	20,809
Inter-bank loan receivables	6,176	4,877	5,282
Amounts due from credit institutions	**396,559**	**289,530**	**116,469**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the "NBRB"). Credit institutions are required to maintain an interest-earning cash deposit (obligatory reserve) with the NBG and a non interest-earning cash deposit (obligatory reserve) with the NBRB, 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 0.25% annual interest on obligatory reserves with NBG for the years ended 31 December 2012 and 31 December 2011. The Group earned up to 1% annual interest on obligatory reserve with NBG in 2010.

As at 31 December 2012 inter-bank loan receivables include GEL 4,448 (2011: GEL 4,176, 2010: GEL 4,436) placed with non-OECD banks.

9. Investment Securities Available-for-Sale

	2012	*2011*	*2010*
Certificates of deposit of central banks	259,402	199,142	104,969
Ministry of Finance treasury bonds	188,967	120,255	52,120
Ministry of Finance treasury bills	9,648	88,657	128,539
Corporate shares	76,681	11,501	11,294
Corporate bonds	–	21	–
	534,698	**419,576**	**296,922**
Less – Allowance for impairment	–	–	(1,982)
Investment securities available-for-sale	**534,698**	**419,576**	**294,940**

Corporate shares as at 31 December 2012 are primarily comprised of 7.2% investment in BGH of GEL 70,738, the remaining 19.4% investment in PJSC Bank Pershyi (formerly known as JSC BG Bank) of GEL 3,837 (2011: GEL 3,837, 2010: nil), investments in a chain of pharmacy stores of GEL 694 (2011: GEL 2,776, 2010: GEL 4,282) and a real estate company of GEL 1,145 (2011: GEL 1,145, 2010: GEL 1,145).

(Thousands of Georgian Lari)

10. Loans to Customers

	2012	*2011*	*2010*
Commercial loans	1,677,624	1,363,058	1,424,550
Consumer loans	591,968	516,733	383,615
Micro and SME loans	400,553	318,566	238,462
Residential mortgage loans	398,114	390,997	409,786
Gold – pawn loans	75,445	78,785	66,749
Other	–	–	4,071
Loans to customers, gross	**3,143,704**	**2,668,139**	**2,527,233**
Less – Allowance for loan impairment	(110,037)	(114,697)	(175,536)
Loans to customers, net	**3,033,667**	**2,553,442**	**2,351,697**

Allowance for loan impairment

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

	Commercial loans 2012	*Consumer loans 2012*	*Residential mortgage loans 2012*	*Micro and SME loans 2012*	*Total 2012*
At 1 January	**70,106**	**28,997**	**10,027**	**5,567**	**114,697**
Charge (reversal)	27,420	13,054	(1,142)	(146)	39,186
Recoveries	7,589	11,064	7,814	3,512	29,979
Write-offs	(25,174)	(30,196)	(5,720)	(6,475)	(67,565)
Interest accrued on impaired loans	(1,901)	(2,662)	(1,266)	(581)	(6,410)
Currency translation differences	158	(8)	–	–	150
At 31 December	**78,198**	**20,249**	**9,713**	**1,877**	**110,037**
Individual impairment	66,566	11,230	3,499	1,877	83,172
Collective impairment	11,632	9,019	6,214	–	26,865
	78,198	**20,249**	**9,713**	**1,877**	**110,037**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**152,268**	**23,683**	**10,719**	**5,620**	**192,290**

	Commercial loans 2011	*Consumer loans 2011*	*Residential mortgage loans 2011*	*Micro and SME loans 2011*	*Other 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 differences	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**

(Thousands of Georgian Lari)

10. Loans to Customers (continued)

Allowance for loan impairment (continued)

	Commercial loans 2010	*Consumer loans 2010*	*Residential mortgage loans 2010*	*Micro and SME loans 2010*	*Other 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 differences	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**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2012 comprised GEL 13,844 (2011: GEL 14,914, 2010: GEL 18,640).

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 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 2012, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 544,466 accounting for 17% of the gross loan portfolio of the Group (2011: GEL 402,989 and 15% respectively, 2010: GEL 383,971 and 15% respectively). An allowance of GEL 20,702 (2011: GEL 7,033, 2010: GEL 3,837) was established against these loans.

As at 31 December 2012, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 791,529 accounting for 25% of the gross loan portfolio of the Group (2011: GEL 523,401 and 20% respectively, 2010: GEL 484,034 and 19% respectively). An allowance of GEL 7,118 (2011: GEL 10,980, 2010: GEL 17,479) was established against these loans.

(Thousands of Georgian Lari)

10. Loans to Customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2012, 31 December 2011 and 31 December 2010 loans are principally issued within Georgia, and their distribution by industry sector was as follows:

	2012	*2011*	*2010*
Individuals	1,233,614	1,132,740	1,006,046
Trade and services	1,053,579	972,290	858,878
Construction and development	218,103	228,412	274,623
Mining	347,505	122,771	137,583
Transport and communication	93,028	83,289	77,792
Energy	28,296	65,360	62,424
Agriculture	94,286	8,709	18,089
Others	75,293	54,568	91,798
Loans to customers, gross	**3,143,704**	**2,668,139**	**2,527,233**
Less – allowance for loan impairment	(110,037)	(114,697)	(175,536)
Loans to customers, net	**3,033,667**	**2,553,442**	**2,351,697**

Loans have been extended to the following types of customers:

	2012	*2011*	*2010*
Private companies	1,796,116	1,492,124	1,488,577
Individuals	1,233,614	1,132,740	1,006,046
State-owned entities	113,974	43,275	32,610
Loans to customers, gross	**3,143,704**	**2,668,139**	**2,527,233**
Less – allowance for loan impairment	(110,037)	(114,697)	(175,536)
Loans to customers, net	**3,033,667**	**2,553,442**	**2,351,697**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2012, 31 December 2011 and 31 December 2010:

	2012			*2011*			*2010*		
	Individual impairment	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***
	2012	***2012***	***2012***	***2011***	***2011***	***2011***	***2010***	***2010***	***2010***
At 1 January	**76,170**	**38,527**	**114,697**	**100,647**	**74,889**	**175,536**	**140,894**	**25,592**	**166,486**
Charge (reversal) for the year	27,606	11,580	39,186	20,135	3,081	23,216	(8,950)	58,836	49,886
Recoveries	21,296	8,683	29,979	16,563	12,286	28,849	25,247	17,492	42,739
Write-offs	(38,200)	(29,365)	(67,565)	(39,342)	(10,389)	(49,731)	(54,534)	(22,917)	(77,451)
Disposal of subsidiary	–	–	–	(16,110)	(40,065)	(56,175)	–	–	–
Interest accrued on impaired loans to customers	(3,853)	(2,557)	(6,410)	(6,094)	(1,211)	(7,305)	(7,216)	(1,523)	(8,739)
Currency translation differences	153	(3)	150	371	(64)	307	5,206	(2,591)	2,615
At 31 December	**83,172**	**26,865**	**110,037**	**76,170**	**38,527**	**114,697**	**100,647**	**74,889**	**175,536**

(Thousands of Georgian Lari)

11. Finance Lease Receivables

	2012	*2011*	*2010*
Minimum lease payments receivable	88,416	82,682	18,521
Less – Unearned finance lease income	(16,223)	(19,323)	(3,514)
	72,193	**63,359**	**15,007**
Less – Allowance for impairment	(507)	(440)	(588)
Finance lease receivables, net	**71,686**	**62,919**	**14,419**

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 2012, the concentration of investment in the largest lease comprised GEL 44,641 or 62% of total finance lease receivables (2011: GEL 47,792 or 75%, 2010: GEL 902 or 6%) and finance income received from it for the year ended 31 December 2012 comprised GEL 3,588 or 41% of total finance income from lease (2011: GEL 2,173 or 33%, 2010: GEL 186 or 4%).

Future minimum lease payments to be received after 31 December 2012, 31 December 2011 and 31 December 2010 are as follows:

	2012	*2011*	*2010*
Within 1 year	25,425	18,485	10,266
From 1 to 5 years	50,982	43,543	8,255
More than 5 years	12,009	20,654	–
Minimum lease payment receivables	**88,416**	**82,682**	**18,521**

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

	Finance lease receivables 2012	***Finance lease receivables 2011***	***Finance lease receivables 2010***
At 1 January	**440**	**588**	**7,144**
Charge (Reversal)	495	317	(5,775)
Amounts written-off	(428)	(193)	(1,210)
Currency translation differences	–	(272)	429
At 31 December	**507**	**440**	**588**
Individual impairment	102	93	232
Collective impairment	405	347	356
	507	**440**	**588**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,008**	**155**	**–**

(Thousands of Georgian Lari)

12. Investment Properties

	2012	*2011*	*2010*
At 1 January	**101,686**	**113,496**	**79,509**
Additions*	62,138	16,565	35,146
Disposals	(15,622)	(7,889)	(5,490)
Disposals through sale of subsidiary	–	(13,654)	–
Net gains from revaluation of investment property	–	1,984	350
Transfers from(to) property and equipment and other assets (Note 13)	12,151	(8,816)	3,981
At 31 December	**160,353**	**101,686**	**113,496**

* *Additions comprise foreclosed properties, no cash transactions were involved.*

Investment properties are stated at fair value. 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. The date of latest revaluation was 31 December 2011. As at 31 December 2012 the Group analyzed market prices for its investment properties and concluded that the market prices were not materially different from their carrying value.

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

	2012	*2011*	*2010*
Rental income	2,508	3,188	2,750
Direct operating expenses	(102)	(225)	(136)

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

(Thousands of Georgian Lari)

13. Property and Equipment

The movements in property and equipment during the year ended 31 December 2012 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount							
31 December 2011	**233,306**	**107,584**	**56,659**	**8,518**	**7,953**	**20,694**	**434,714**
Acquisition through business combinations (Note 5)	36,359	–	3,302	–	–	15,799	55,460
Additions	7,354	8,756	16,458	3,230	306	24,082	60,186
Disposals	(2,226)	(2,272)	(448)	(2,105)	(1,266)	–	(8,317)
Disposals through sale of subsidiaries	–	(6)	–	(46)	–	–	(52)
Transfers	13,593	–	–	–	864	(14,457)	–
Transfers to investment properties	(1,520)	–	–	–	–	(10,631)	(12,151)
Transfers from (to) other assets	10	(14)	6,636	4	–	1,785	8,421
Effect of hyperinflation	3,086	210	347	48	60	76	3,827
Currency translation differences	(1,208)	(1,272)	(223)	(33)	(78)	(81)	(2,895)
31 December 2012	**288,754**	**112,986**	**82,731**	**9,616**	**7,839**	**37,267**	**539,193**
Accumulated impairment							
31 December 2011	**2,626**	**37**	**106**	**6**	**–**	**–**	**2,775**
Impairment charge	–	14	59	–	–	–	73
Disposals through sale of subsidiaries	–	(15)	(7)	–	–	–	(22)
Effect of hyperinflation	–	–	123	–	–	–	123
Currency translation differences	(437)	–	(182)	–	–	–	(619)
31 December 2012	**2,189**	**36**	**99**	**6**	**–**	**–**	**2,330**
Accumulated depreciation							
31 December 2011	**1,746**	**43,476**	**28,913**	**6,464**	**3,230**	**–**	**83,829**
Depreciation charge	3,026	11,288	7,536	1,768	1,409	–	25,027
Effect of hyperinflation	450	8	22	1	–	–	481
Currency translation differences	(25)	19	71	9	52	–	126
Transfers to other assets	–	(8)	(122)	–	–	–	(130)
Disposals	2	(373)	(150)	(1,834)	(966)	–	(3,321)
Disposals through sale of subsidiaries	–	(4)	–	(22)	–	–	(26)
31 December 2012	**5,199**	**54,406**	**36,270**	**6,386**	**3,725**	**–**	**105,986**
Net book value:							
31 December 2011	**228,934**	**64,071**	**27,640**	**2,048**	**4,723**	**20,694**	**348,110**
31 December 2012	**281,366**	**58,544**	**46,362**	**3,224**	**4,114**	**37,267**	**430,877**

13. Property and Equipment (continued)

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 revalued amount							
31 December 2010	**150,516**	**100,559**	**42,183**	**8,341**	**7,530**	**42,766**	**351,895**
Acquisition through business combinations	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 differences	(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 differences	(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 differences	(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**

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 revalued amount							
31 December 2009	**137,705**	**90,082**	**34,753**	**7,622**	**7,870**	**55,719**	**333,751**
Acquisition through business combinations	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 differences	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 differences	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**

(Thousands of Georgian Lari)

13. Property and Equipment (continued)

Premises of the Group are subject to revaluation on a regular basis. The date of latest revaluation was 31 December 2010. As at 31 December 2012 and 31 December 2011 the Group analyzed market prices for its premises and concluded that the market price of premises was not materially different from their carrying value.

If the buildings had been measured using the cost model, the carrying amounts of the buildings as at 31 December 2012, 31 December 2011 and 31 December 2010 would have been as follows:

	2012	*2011*	*2010*
Cost	219,595	164,151	79,800
Accumulated depreciation and impairment	(11,465)	(8,012)	(7,550)
Net carrying amount	**208,130**	**156,139**	**72,250**

14. Goodwill

Movements in goodwill during the years ended 31 December 2012, 31 December 2011 and 31 December 2010, were as follows:

	2012	*2011*	*2010*
Cost			
1 January	**74,645**	**142,284**	**138,849**
Acquisition through business combinations (Note 5)	482	377	3,435
Disposals through sale of subsidiaries	(1,020)	(68,016)	–
31 December	**74,107**	**74,645**	**142,284**
Accumulated impairment			
1 January	**28,450**	**73,072**	**73,072**
Impairment charge	655	23,394	–
Disposals through sale of subsidiaries	(655)	(68,016)	–
31 December	**28,450**	**28,450**	**73,072**
Net book value:			
1 January	**46,195**	**69,212**	**65,777**
31 December	**45,657**	**46,195**	**69,212**

The impairment charge of goodwill in 2012 was in respect of JSC Intertour – GEL 655. The impairment charge of goodwill in 2011 was in respect of JSC Belarusky Narodny Bank – GEL 23,394. The main reason for impairment was insufficient future operating cash flows expected to be received per the forecasts of the respective cash generating units.

Impairment test for goodwill

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 liberty consumer.

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

	2012	*2011*	*2010*
Insurance & Healthcare	19,821	19,339	18,962
Retail banking	12,433	12,433	12,433
Corporate banking	9,965	9,965	9,965
Liberty Consumer	3,438	4,458	4,458
BNB & BGB	–	–	23,394
Total	**45,657**	**46,195**	**69,212**

(Thousands of Georgian Lari)

14. Goodwill (continued)

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 were used by the Group for corporate banking and retail banking:

	Corporate Banking			*Retail Banking*		
	2012, %	*2011, %*	*2010, %*	*2012, %*	*2011, %*	*2010, %*
Discount rate	8.5%	8.5%	8.9%	8.5%	8.5%	8.9%

The following rates were used by the Group for Insurance & Healthcare and Liberty Consumer:

	Insurance & Healthcare			*Liberty Consumer*		
	2012, %	*2011, %*	*2010, %*	*2012, %*	*2011, %*	*2010, %*
Discount rate	13.3%	13.3%	12.6%	14.5%	14.5%	14.5%

The following rates were used by the Group for BNB & BGB:

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

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.

15. Taxation

The corporate income tax (expense) benefit comprises:

	2012	*2011*	*2010*
Current income tax (expense) benefit	(23,469)	4,985	(12,365)
Deferred income tax expense	(9,731)	(2,923)	(3,411)
Income tax (expense) benefit	**(33,200)**	**2,062**	**(15,776)**
Income tax expense attributable to continuing operations	**(33,200)**	**(21,125)**	**(15,776)**
Income tax benefit attributable to a discontinued operation	**–**	**23,187**	**–**
Deferred income tax benefit from continuing operations in other comprehensive income (loss)	(2,826)	5,581	206
Deferred income tax benefit from discontinued operations in other comprehensive income (loss)	–	625	–
Total deferred income tax (expense) benefit recognised in other comprehensive income (loss)	**(2,826)**	**6,206**	**206**

(Thousands of Georgian Lari)

15. Taxation (continued)

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2012, 2011 and 2010 was as follows:

	2012	*2011*	*2010*
Currency translation differences	654	6,175	–
Net (gains) losses on investment securities available-for-sale	(3,480)	124	146
Revaluation of buildings	–	(93)	(58)
Other	–	–	118
Income tax (expense) benefit to other comprehensive income (loss)	**(2,826)**	**6,206**	**206**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which ranges from 15% to 23% (2011: from 15% to 23%, 2010: 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 2012, 31 December 2011 and 31 December 2010 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2012	*2011*	*2010*
Profit before income tax (expense) benefit from continuing operations	215,945	172,054	98,443
Net loss before income tax benefit from discontinued operations	–	(38,406)	–
Profit before income tax (expense) benefit	**215,945**	**133,648**	**98,443**
Statutory tax rate	15%	15%	15%
Theoretical income tax expense at statutory tax rate	**(32,392)**	**(20,047)**	**(14,766)**
Tax at the domestic rates applicable to profits in the respective country	(1,417)	(2,050)	(291)
Correction of prior year declarations	–	8,408	–
Loss on disposal of subsidiary *	–	18,593	–
Other operating income	–	–	229
State securities at lower tax rates	–	–	564
Non-deductible expenses	–	(3,509)	(1,694)
Other	609	667	182
Income tax (expense) benefit	**(33,200)**	**2,062**	**(15,776)**
Income tax expense attributable to continuing operations	(33,200)	(21,125)	(15,776)
Income tax benefit attributable to a discontinued operation	–	23,187	–
Income tax (expense) benefit	**(33,200)**	**2,062**	**(15,776)**

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

(Thousands of Georgian Lari)

15. Taxation (continued)

Applicable taxes in Georgia 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 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.

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

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*					*Origination and reversal of temporary differences*			
	2009	***In the income statement***	***In other compre-hensive income***	***Effect of business combi-nation***	***2010***	***In the income statement***	***In other compre-hensive income***	***Effect of business combi-nation***	***Disposal of subsidiary***	***2011***	***In the income statement***	***In other compre-hensive income***	***Disposal of Subsi-diary***	***2012***
Tax effect of deductible temporary differences:														
Amounts due to credit institutions	–	–	–	–	–	1,264	–	–	–	1,264	(1,209)	–	–	55
Investment securities: available-for-sale	911	20	279	–	1,210	(988)	522	–	(7)	737	(749)	19	–	7
Loans to customers	10,129	440	–	–	10,569	(345)	(36)	–	(10,188)	–	–	–	–	–
Allowance for loan impairment	–	–	–	–	–	18	(9)	–	–	9	–	(9)	–	–
Allowance for loan impairment	–	–	–	–	–	–	–	–	–	–	(12)	23	–	11
Amounts due to customers	–	–	–	–	–	26	(13)	–	–	13	85	–	–	98
Other insurance liabilities & pension fund obligations	–	–	–	–	–	275	176	–	–	451	(2)	(179)	–	270
Investment properties	1,604	349	–	–	1,953	(12)	(1,604)	–	(337)	–	–	–	–	–
Reinsurance assets	372	(117)	–	–	255	–	(27)	–	–	228	(228)	–	–	–
Insurance premiums receivables	1,697	–	–	–	1,697	–	–	–	–	1,697	(373)	–	–	1,324
Allowances for impairment and provisions for other losses	1,197	867	–	–	2,064	–	(722)	–	–	1,342	(283)	–	–	1,059
Tax losses carried forward	19,492	(15,020)	–	–	4,472	3,714	5,181	–	(1,035)	12,332	(2,417)	(746)	(24)	9,145
Finance lease receivables	319	–	–	–	319	23	(35)	–	–	307	(34)	(14)	–	259
Intangible assets	264	24	–	–	288	28	(135)	–	–	181	11	–	–	192
Property and equipment	2,221	(20)	290	78	2,569	(33)	(358)	–	–	2,178	(1,238)	(7)	–	933
Other assets	822	147	34	–	1,003	81	(103)	–	(13)	968	460	(40)	(26)	1,362
Other liabilities	1,925	(698)	–	–	1,227	604	(83)	–	(218)	1,530	(909)	(83)	–	538
Gross deferred tax assets	**40,953**	**(14,008)**	**603**	**78**	**27,626**	**4,655**	**2,754**	**–**	**(11,798)**	**23,237**	**(6,898)**	**(1,036)**	**(50)**	**15,253**
Unrecognised deferred tax assets	(131)	131	–	–	–	–	–	–	–	–	–	–	–	–
Deferred tax assets	**40,822**	**(13,877)**	**603**	**78**	**27,626**	**4655**	**2754**	**–**	**(11,798)**	**23,237**	**(6,898)**	**(1,036)**	**(50)**	**15,253**
Tax effect of taxable temporary differences:														
Fair value measurement of securities	–	203	–	–	203	–	(203)	–	–	–	–	–	–	–
Amounts due to credit institutions	1,734	39	–	–	1,773	(8)	–	–	(31)	1,734	(1,662)	–	–	72
Amounts due to customers	508	1,078	(119)	–	1,467	(7)	(8)	–	(942)	510	(510)	–	–	–
Securities available-for-sale	182	249	133	–	564	(1,157)	593	–	–	–	(150)	2,526	–	2,376
Loans to customers	20,879	(10,314)	–	–	10,565	(1,452)	(91)	–	–	9,022	(14)	–	–	9,008
Allowance for loan impairment	–	–	–	–	–	622	(307)	–	–	315	(11)	–	–	304
Reinsurance assets	27	13	–	–	40	–	(27)	–	–	13	63	–	–	76
Finance lease receivables	–	–	–	–	–	9	(4)	–	–	5	(5)	–	–	–
Allowances for impairment and provisions for other losses	–	770	–	–	770	(13)	(602)	–	–	155	(169)	14	–	–
Other insurance liabilities & pension fund obligations	–	7	–	–	7	218	179	–	–	404	446	–	–	850
Property and equipment	22,451	(3,756)	348	379	19,422	6,474	(957)	1,167	57	26,163	3,309	310	–	29,782
Investment properties	548	20	–	–	568	1,697	(1,650)	–	–	615	(152)	(2)	–	461
Intangible assets	2,412	1,364	–	–	3,776	814	(175)	–	(99)	4,316	571	–	–	4,887
Other assets	783	(677)	35	–	141	1,163	(256)	–	–	1,048	399	(203)	–	1,244
Other liabilities	472	538	–	43	1,053	(782)	56	–	–	327	718	(855)	(29)	161
Deferred tax liabilities	**49,996**	**(10,466)**	**397**	**422**	**40,349**	**7,578**	**(3,452)**	**1,167**	**(1,015)**	**44,627**	**2,833**	**1,790**	**(29)**	**49,221**
Net deferred tax assets (liabilities)	**(9,174)**	**(3,411)**	**206**	**(344)**	**(12,723)**	**(2,923)**	**6,206**	**(1,167)**	**(10,783)**	**(21,390)**	**(9,731)**	**(2,826)**	**(21)**	**(33,968)**

(Thousands of Georgian Lari)

16. Other Assets and Other Liabilities

Other assets comprise:

	2012	*2011*	*2010*
Insurance premiums receivable	68,947	24,052	21,413
Inventory	44,380	27,903	9,828
Derivative financial assets	36,784	36,823	2,933
Accounts receivable	25,559	24,126	17,093
Settlements on operations	10,931	1,972	5,182
Operating taxes receivable	9,883	4,683	1,793
Reinsurance assets	8,279	8,859	7,307
Receivables from money transfers	4,619	4,937	3,358
Receivables from documentary operations	2,990	1,026	1,338
Assets purchased for finance lease purposes	1,654	1,877	1,434
Trading securities owned	971	1,115	1,218
Foreclosed assets	900	169	1,049
Receivables from sale of assets	872	663	797
Operating lease receivables	547	309	266
Prepayments for purchase of property and equipment	–	–	959
Assets held-for-sale	–	–	314
Other	18,101	6,556	2,447
	235,417	**145,070**	**78,729**
Less – Allowance for impairment of other assets	(14,375)	(7,502)	(3,309)
Other assets	**221,042**	**137,568**	**75,420**

Inventories mainly comprises GEL 32,458 affordable housing apartments under construction (2011: GEL 19,151, 2010: 3,036), GEL 5,698 medical supplies held by the healthcare segment (2011: GEL 2,368, 2010 GEL 271) and GEL 5,618 of winery business related materials and finished goods (2011: GEL 5,971, 2010: 5,406).

Other liabilities comprise:

	2012	*2011*	*2010*
Insurance contracts liabilities	79,839	35,009	32,695
Deferred income and other accruals	31,975	8,915	3,268
Accounts payable	13,556	35,025	2,617
Accruals for employee compensation	14,093	40,825	25,111
Other insurance liabilities	10,861	8,534	4,431
Creditors	9,911	1,751	8,412
Pension benefit obligations	8,758	6,353	4,949
Derivative financial liabilities	4,867	15,856	17,525
Other taxes payable	1,930	2,777	2,418
Dividends payable	393	359	303
Amounts payable for share acquisitions	–	1	259
Amounts payable for purchase of intangible assets	–	–	9
Other	8,041	3,057	4,790
Other liabilities	**184,224**	**158,462**	**106,787**

(Thousands of Georgian Lari)

16. Other Assets and Other Liabilities (continued)

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 or liability, 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.

	2012		
	Notional amount	*Fair value*	
		Asset	*Liability*
Interest rate contracts			
Forwards and Swaps – foreign	148,137	–	4,783
Foreign exchange contracts			
Forwards and Swaps – domestic	41,693	542	–
Forwards and Swaps – foreign	120,493	35,976	84
Equity / Commodity contracts			
Call options – foreign	3,313	266	–
Total derivative assets / liabilities	**313,636**	**36,784**	**4,867**

	2011			*2010*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Interest rate contracts						
Forwards and Swaps – foreign	263,309	–	9,542	338,369	–	14,527
Foreign exchange contracts						
Forwards and Swaps – domestic	97,781	275	196	66,058	777	597
Forwards and Swaps – foreign	255,348	35,850	5,791	–	–	–
Options – foreign	–	–	–	54,121	1,815	2,211
Equity / Commodity contracts						
Call options – foreign	5,010	698	–	3,014	341	–
Embedded derivatives from investment deposits	–	–	327	–	–	190
Total derivative assets / liabilities	**621,448**	**36,823**	**15,856**	**461,562**	**2,933**	**17,525**

17. Amounts Due to Customers

The amounts due to customers include the following:

	2012	*2011*	*2010*
Time deposits	1,325,544	908,577	953,399
Current accounts	1,297,367	1,645,507	1,051,299
Promissory notes issued	70,114	181,138	21,610
Amounts due to customers	**2,693,025**	**2,735,222**	**2,026,308**
Held as security against letters of credit and guarantees (Note 19)	**31,439**	**24,353**	**20,336**

As at 31 December 2012, 31 December 2011 and 31 December 2010, 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. The average effective maturity of the notes was 3 months (2011: 5 months, 2010: 10 months).

At 31 December 2012, amounts due to customers of GEL 462,815 (17%) were due to the 10 largest customers (2011: GEL 580,710 (21%), 2010: 363,420 (18%).

(Thousands of Georgian Lari)

17. Amounts due to customers (continued)

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

	2012	*2011*	*2010*
Private enterprises	1,300,487	1,290,908	964,150
Individuals	1,238,135	1,056,852	894,312
State and budget organizations	154,403	387,462	167,846
Amounts due to customers	**2,693,025**	**2,735,222**	**2,026,308**

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

	2012	*2011*	*2010*
Individuals	1,238,135	1,056,852	894,312
Trade and services	712,794	655,551	421,138
State and budget organizations	154,403	387,462	167,846
Energy	241,807	239,797	256,275
Construction and development	145,919	175,906	93,827
Mining and processing	59,129	131,734	113,283
Transport and communication	35,235	36,871	35,226
Agriculture	4,502	14,844	21,379
Other	101,101	36,205	23,022
Amounts due to customers	**2,693,025**	**2,735,222**	**2,026,308**

18. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2012	*2011*	*2010*
Borrowings from international credit institutions	596,700	449,220	400,740
Eurobonds	420,849	95,954	270,880
Short-term loans from the National Bank of Georgia	310,178	–	–
Time deposits and inter-bank loans	113,222	42,837	130,284
Correspondent accounts	7,969	15,331	4,717
Subtotal	**1,448,918**	**603,342**	**806,621**
Non-convertible subordinated debt	208,244	234,012	245,508
Convertible subordinated debt	–	83,818	86,798
Total subordinated debt	**208,244**	**317,830**	**332,306**
Amounts due to credit institutions	**1,657,162**	**921,172**	**1,138,927**

During the year ended 31 December 2012 the Group received short-term funds from Georgian banks in different currencies.

During the year ended 2012 the Group paid up to 9.65% on USD borrowings from international credit institutions (2011: up to 9.65%, 2010: up to 9.00%). During the year ended 2012 the Group paid up to 11.65% on USD subordinated debt (2011, 2010: up to 11.65%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2012, 31 December 2011 and 31 December 2010 the Group complied with all the Lender Covenants of the borrowings from international credit institutions.

(Thousands of Georgian Lari)

18. Amounts Due to Credit Institutions (continued)

The borrowings received on 13 January 2009 from the European Bank for Reconstruction and Development ("EBRD") and International Financial Corporation ("IFC"), comprising USD 26,044 thousand (GEL 43,441) each, had an equity conversion feature valid for 5 years from the loan granting date (the "Convertibility Period"). On 24 February 2012 EBRD and IFC utilized the equity conversion feature and converted the largest portion of their respective loans to the Bank into the Bank's shares (the "Loan Conversion"). A total nominal (contractual) amount of USD 49,903 thousand (GEL 81,023) was converted into 3,635,006 newly issued ordinary shares of the Bank (Note 20).

In accordance with the terms and conditions of the Loan Participation Notes due to BG Finance B.V. in 2012 (ISIN: XS0283756624; Common Code: 028375662), on 8 February 2012 (the "Maturity Date") the Notes were redeemed in full. Notes with a par value of USD 144,493 thousand (GEL 241,347) had been repurchased by the Bank prior to the Maturity Date, recognising a net of GEL 260 gain on early redemptions and the remaining Notes (with a par value of USD 55,507 thousand, GEL 92,580) were repaid at the Maturity Date.

On 5 July 2012 the Bank completed the issuance of its USD 250 million (GEL 411 million) 7.75% notes due 2017. The Regulation S / Rule 144A 5-year senior unsecured notes carry a 7.75% coupon rate per annum, paid semi-annually, and were issued and sold at closing at a price of 99.491% of principal amount. Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities Ltd. and Merrill Lynch International acted as Joint Lead Managers and Bookrunners for the notes. Dechert LLP and Baker & McKenzie LLP acted as legal advisors to the Joint Lead Managers and the Bank, respectively. The notes are rated BB- (Fitch) / Ba3 (Moody's) / BB- (Standard & Poor's). The notes are listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's Regulated Market.

19. 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 2012, 31 December 2011 and 31 December 2010 the Group's financial commitments and contingencies comprised the following:

	2012	*2011*	*2010*
Credit-related commitments			
Guarantees issued	502,511	463,393	374,230
Undrawn loan facilities	140,003	120,339	138,057
Letters of credit	100,023	70,224	58,779
	742,537	**653,956**	**571,066**
Operating lease commitments			
Not later than 1 year	5,666	5,040	7,016
Later than 1 year but not later than 5 years	11,722	9,979	13,984
Later than 5 years	2,172	3,122	6,037
	19,560	**18,141**	**27,037**
Capital expenditure commitments	**3,069**	**47,918**	**39,523**
Less – Cash held as security against letters of credit and guarantees (Note 17)	(31,439)	(24,353)	(20,336)
Less – Provisions	(683)	(386)	(4,407)
Less – Receivables related to letters of credit	–	(515)	–
Financial commitments and contingencies, net	**733,044**	**694,761**	**612,883**

As at 31 December 2012 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 948 and software and other intangible assets of GEL 2,121. As at 31 December 2011 capital expenditure 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 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 32,311 and software and other intangible assets of GEL 7,212.

(Thousands of Georgian Lari)

20. Equity

Share capital

As at 31 December 2012, issued share capital comprised 36,512,553 common shares, of which 36,512,553 were fully paid (31 December 2011: 43,308,125 authorized common shares, of which 32,877,547 were issued and fully paid, 31 December 2010: 43,308,125 authorized common shares, of which 31,344,860 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2012 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2009	**31,306,071**	**31,306**
Increase in share capital arising from share-based payments	38,789	39
31 December 2010	**31,344,860**	**31,345**
Increase in share capital arising from issuance of GDRs	1,500,000	1,500
Increase in share capital arising from share-based payments	32,687	33
31 December 2011	**32,877,547**	**32,878**
Issue of share capital (Note 18)	3,635,006	3,635
31 December 2012	**36,512,553**	**36,513**

On 24 February 2012 EBRD and IFC utilized the convertibility feature and converted USD 49,903 of their loans to the Bank into the Bank's shares (Note 18). Total number of ordinary shares issued under this transaction comprised 3,635,006.

On 28 February 2012 the Group completed the Tender Offer under which 35,909,383 of the Bank's shares then outstanding (or 98.35 per cent) were converted into 35,909,383 shares of BGH (Note 1).

Share capital of the Group was paid by the shareholders in Georgian Lari and they were entitled to dividends in Georgian Lari before the Tender Offer and are entitled to dividends in British Pound Sterling after the Tender Offer.

Treasury shares

The number of treasury shares held by the Group as at 31 December 2012 comprised 463,590 (31 December 2011: 3,146,140, 31 December 2010: 1,509,086).

Treasury shares of GEL 464 as at 31 December 2012 comprise the Bank's shares owned by the Group (31 December 2011: GEL 1,208, 2010: GEL 1,072). 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.

During the year ended 31 December 2011, an increase in share capital of GEL 1,500 was made for future share-based compensation purposes. As a result, treasury shares amounting to GEL 1,938 as at 31 December 2011 (2010: GEL 438) were kept by the Group's custodian – Abacus Corporate Trustee Limited, acting as the trustee of the Group. Starting 20 February 2012, all shares of the Bank kept by Abacus Corporate Trustee Limited were converted into the Group's shares.

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).

Dividends

On 25 May 2012, the annual general meeting of shareholders' of JSC Bank of Georgia declared 2012 dividends comprising Georgian Lari 0.7 per share, based on 2011 audited financial results. Dividend record date was set as 8 June 2012. The currency conversion date was set at 25 June 2012, with the official GEL – GBP exchange rate of 2.5626, resulting in a GBP denominated dividend of 0.2732 per share. Payment of the total GEL 25,267 dividends was received by shareholders on 25 June 2012.

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 received by shareholders on 18 July 2011.

No dividends were declared nor paid during 2010.

(Thousands of Georgian Lari)

20. Equity (continued)

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment 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.

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.

Movements in other reserves during the years ended 31 December 2012, 31 December 2011 and 31 December 2010 are presented in the statements of other comprehensive income.

Earnings per share

	2012	*2011*	*2010*
Basic earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	178,921	132,531	83,640
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	178,921	147,750	83,640
Weighted average number of ordinary shares outstanding during the year	33,142,027	29,866,366	30,037,041
Basic earnings per share	5.3986	4.4375	2.7846
Basic earnings per share from continuing operations	5.3986	4.9470	2.7846
Dilution effect			
Interest expenses on convertible debt instruments, net of tax	1,116	8,029	8,143
Number of dilutive potential ordinary shares	526,381	3,635,006	3,474,614
Diluted earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	180,037	140,560	91,783
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	180,037	155,779	91,783
Weighted average number of diluted ordinary shares outstanding during the year	33,668,408	33,501,372	33,511,655
Diluted earnings per share	5.3474	4.1957	2.7388
Diluted earnings per share from continuing operations	5.3474	4.6499	2.7388

During the years ended 31 December 2011 and 31 December 2010 dilutive potential ordinary shares were accounted for by convertible loans granted by EBRD and IFC.

On 24 February 2012 the Bank converted certain part of its loans taken from EBRD and IFC into 3,635,006 ordinary shares of the Bank (Note 18). Their conversion decreased earnings per share from continuing operations. However, it also reduced the Group's interest expense on these debt instruments and increased the total profit attributable to ordinary shareholders of the Group.

(Thousands of Georgian Lari)

21. Net Fee and Commission Income

	2012	*2011*	*2010*
Settlements operations	69,208	62,015	50,511
Guarantees and letters of credit	26,846	17,528	12,362
Cash operations	8,826	9,048	8,061
Currency conversion operations	1,802	1,507	677
Brokerage service fees	911	1,033	545
Advisory	–	1,668	1,129
Other	1,685	742	980
Fee and commission income	**109,278**	**93,541**	**74,265**
Settlements operations	(14,841)	(12,255)	(7,324)
Guarantees and letters of credit	(4,046)	(1,856)	(1,164)
Cash operations	(1,510)	(2,424)	(780)
Insurance brokerage service fees	(722)	(543)	(646)
Currency conversion operations	(73)	(550)	(14)
Other	(1,018)	(576)	(917)
Fee and commission expense	**(22,210)**	**(18,204)**	**(10,845)**
Net fee and commission income	**87,068**	**75,337**	**63,420**

22. Net Insurance Revenue

Net insurance premiums earned, net insurance claims incurred and respective net insurance revenue for the years ended 31 December 2012, 31 December 2011 and 31 December 2010 comprised:

	2012	*2011*	*2010*
Life insurance contracts premium written	4,069	2,200	2,562
General insurance contracts premium written	113,810	54,241	53,744
Total premiums written	**117,879**	**56,441**	**56,306**
Gross change in life provision	(98)	82	96
Gross change in general insurance contracts unearned premium provision	(14,931)	135	(1,001)
Total gross premiums earned on insurance contracts	**102,850**	**56,658**	**55,401**
Reinsurers' share of life insurance contracts premium written	(658)	(148)	(1,321)
Reinsurers' share of general insurance contracts premium written	(8,925)	(9,750)	(11,038)
Reinsurers' share of change in life provision	(65)	(183)	(57)
Reinsurers' share of change in general insurance contracts unearned premium provision	(2,026)	(181)	1,576
Total reinsurers' share of gross earned premiums on insurance contracts	**(11,674)**	**(10,262)**	**(10,840)**
Net insurance premiums earned	**91,176**	**46,396**	**44,561**
Life insurance claims paid	(539)	(465)	(1,272)
General insurance claims paid	(60,323)	(30,850)	(28,493)
Total insurance claims paid	**(60,862)**	**(31,315)**	**(29,765)**
Reinsurers' share of life insurance claims paid	84	428	988
Reinsurers' share of general insurance claims paid	1,282	1,186	1,497
Gross change in total reserves for claims	1,742	774	(1,486)
Reinsurers' share of change in total reserves for claims	716	269	868
Net insurance claims incurred	**(57,038)**	**(28,658)**	**(27,898)**
Net insurance revenue	**34,138**	**17,738**	**16,663**

(Thousands of Georgian Lari)

23. Net Healthcare Revenue

	2012	*2011*	*2010*
Revenue from free flow (non-insured retail individuals)	21,133	1,847	501
Revenue from insurance companies	16,937	1,507	152
Revenue from government programmes	13,184	217	–
Other revenue from medical services	3,122	2,129	1,555
Healthcare revenue	**54,376**	**5,700**	**2,208**
Direct salary expenses	(21,980)	(1,938)	(999)
Direct materials	(6,799)	(632)	(139)
Expenses on medical service providers	(2,081)	(474)	(351)
Other direct expenses	(170)	(198)	(143)
Cost of healthcare services	**(31,030)**	**(3,242)**	**(1,632)**
Net healthcare revenue	**23,346**	**2,458**	**576**

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

	2012	*2011*	*2010*
Salaries and bonuses	(119,789)	(113,214)	(102,686)
Social security costs	(1,510)	(1,408)	(1,199)
Salaries and other employee benefits	**(121,299)**	**(114,622)**	**(103,885)**

The average number of staff employed by the Group for the years ended 31 December 2012, 31 December 2011 and 31 December 2010 comprised:

	2012	*2011*	*2010*
The Bank	3,523	3,229	2,921
Insurance segment	459	324	309
BNB segment *	290	338	728
Other	750	758	758
Average number of staff employed excluding healthcare**	**5,022**	**4,649**	**4,716**
Healthcare segment	4,288	955	436
Average total number of staff employed	**9,310**	**5,604**	**5,152**

**** JSC Belarusky Narodny Bank and JSC BG BANK (for 2011 and 2010).***
***** Salary expenses on staff employed in the healthcare segment are included in cost of healthcare services.***

Salaries and bonuses include GEL 17,122, GEL 12,092 and GEL 8,920 of the Executives' Equity Compensation Plan costs for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 26 and 30).

	2012	*2011*	*2010*
Repairs and maintenance	(11,164)	(6,330)	(6,205)
Legal and other professional services	(8,975)	(6,077)	(6,149)
Marketing and advertising	(9,603)	(15,614)	(12,534)
Occupancy and rent	(9,457)	(9,396)	(10,082)
Office supplies	(8,344)	(3,350)	(3,786)
Operating taxes	(4,824)	(4,464)	(4,188)
Communication	(4,593)	(4,679)	(4,975)
Corporate hospitality and entertainment	(2,669)	(1,889)	(1,709)
Security	(1,964)	(2,061)	(3,055)
Travel expenses	(1,403)	(2,412)	(1,975)
Personnel training and recruitment	(854)	(733)	(416)
Insurance	(397)	(232)	(678)
Penalties	(318)	(329)	(178)
Banking services	(62)	(874)	(756)
Other	(1,059)	(3,502)	(3,882)
General and administrative expenses	**(65,686)**	**(61,942)**	**(60,568)**

(Thousands of Georgian Lari)

25. Net Non-operating Expenses

Net non-operating expenses for the year ended 31 December 2012 include GEL 6,191 in relation to the costs of BGH's admission to the premium listing segment of the Official List of the UK Listing Authority and GEL 8,413 in relation to impairment of several investments. Net non-operating expenses for the year ended 31 December 2011 include GEL 23,394 in relation to impairment of goodwill on JSC Belarusky Narodny Bank and GEL 6,431 loss on early repurchase of the Bank's Eurobonds. All other amounts included in this caption for the years ended 31 December 2012, 31 December 2011 and 31 December 2010 are not individually significant, and therefore have not been disclosed separately.

26. Share-based Payments

Executives' Equity Compensation Plan

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

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 Group estimates that the fair value of the shares awarded on 18 February 2010 was Georgian Lari 17.29 per share.

Additionally, in March 2010 the Deputies of the CEO of the Bank and in May 2010 CEO of the Bank signed three-year fixed contingent share-based compensation agreements with the Bank for the total of 915,000 GDRs. The total amount of GDRs fixed 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 a 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 Group 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 awarded on 25 May 2010 was Georgian Lari 18.16.

In February 2011 the Bank's Supervisory Board resolved 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 two-year vesting, while shares awarded to the other 24 executives are subject to three-year vesting, with a continuous employment being the only vesting condition for both awards. The Group considers 21 February 2011 as the grant date. The Group estimates that the fair value of the shares awarded on 21 February 2011 was Georgian Lari 35.86 per share.

In March 2012 the Bank's Supervisory Board resolved to award 220,000 ordinary shares of BGH to the members of the Management Board and 262,443 ordinary shares of BGH to the Group's 28 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 24 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 6 March 2012 as the grant date. The Group estimates that the fair value of the shares awarded on 6 March 2012 was Georgian Lari 26.07 per share.

The Bank grants share compensation to its mid-management employees too. In March 2012, in February 2011 and in February 2010, the Supervisory Board of the Bank resolved to award 42,600, 20,485 and nil ordinary shares to its mid-management employees, respectively. All these awards are subject to three-year vesting, with a continuous employment being the only vesting condition for all awards. The Group considers 6 March 2012, 21 February 2011 and 18 February 2010 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 6 March 2012, 21 February 2011 and 18 February 2010 were Georgian Lari 26.07, 35.86 and 17.29 per share, respectively.

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 22.92 per share in year ended 31 December 2012 (31 December 2011: Georgian Lari 32.94 per share, 31 December 2010: Georgian Lari 17.96).

The Group's total share-based payment expenses for the year ended 31 December 2012 comprised GEL 17,122 (31 December 2011: GEL 12,092, 31 December 2010: 8,920) and are included in "salaries and other employee benefits", as "salaries and bonuses".

(Thousands of Georgian Lari)

26. Share-based Payments (continued)

Summary (continued)

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

	2012	*2011*	*2010*
Total number of equity instruments awarded	792,443	333,584	1,380,707
– *Among them, to top management* and supervisory board members*	*124,000*	*52,687*	*500,711*
Weighted average value at grant date, per share (GEL in full amount)	22.92	32.94	17.96
Value at grant date, total (GEL)	**18,162**	**10,989**	**24,802**
Total expense recognised during the year (GEL) (Notes 26 and 30)	**(17,122)**	**(12,092)**	**(8,920)**

*** 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.**

27. 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 Group 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 operational 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 Group's strategic planning process.

Risk management structure

Audit Committee
The Audit Committee is an independent body and is directly monitored by the Board. It has the overall responsibility for developing and implementation of overall risk assessment and risk mitigation strategies, principles, frameworks, policies and limits. The 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.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Introduction (continued)

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 Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group 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, and changes to the risk profile. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board receives a 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.

For all levels throughout the Group, 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 the 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.

(Thousands of Georgian Lari)

27. Risk Management (continued)

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.

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 Group to similar risks to loans and these are mitigated by the same control processes and policies.

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 2012	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	8	396,559	–	–	–	396,559
Debt investment securities available-for-sale	9	458,017	–	–	–	458,017
Loans to customers:	10					
Commercial loans		1,372,889	62,048	73,681	169,006	1,677,624
Consumer loans		530,333	18,945	1,181	41,509	591,968
Micro and SME loans		376,940	14,789	1,842	6,982	400,553
Residential mortgage loans		358,742	18,692	3,305	17,375	398,114
Gold – pawn loans		75,445	–	–	–	75,445
		2,714,349	**114,474**	**80,009**	**234,872**	**3,143,704**
Finance lease receivables	11	19,153	1,770	440	50,830	72,193
Total		**3,588,078**	**116,244**	**80,449**	**285,702**	**4,070,473**

		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
Debt investment securities available-for-sale	9	408,075	–	–	–	408,075
Loans to customers:	10					
Commercial loans		1,030,959	75,009	37,888	219,202	1,363,058
Consumer loans		469,374	13,517	1,224	32,618	516,733
Residential mortgage loans		344,593	12,872	1,477	32,055	390,997
Micro and SME 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	11	57,647	4,222	913	577	63,359
Total		**2,985,087**	**110,651**	**42,996**	**290,369**	**3,429,103**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

31 December 2010	Notes	Neither past due nor impaired			Past due or individually impaired	Total
		High grade	Standard grade	Sub-standard grade		
Amounts due from credit institutions	8	115,622	847	–	–	116,469
Debt investment securities:						
Available-for-sale	9	285,628	–	–	–	285,628
Held-to-maturity		21	–	–	–	21
		285,649	**–**	**–**	**–**	**285,649**
Loans to customers:	10					
Commercial loans		924,320	254,675	42,449	203,106	1,424,550
Consumer loans		324,474	13,889	9,251	62,172	409,786
Residential mortgage loans		334,430	13,841	703	34,641	383,615
Micro and SME 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	11	10,533	311	872	3,291	15,007
Total		**2,284,765**	**288,576**	**56,918**	**314,099**	**2,944,358**

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 Group as follows:

- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due no more than 30 days is assessed as a financial asset with High Grade;
- A financial asset that is neither past due nor impaired at the 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 at the 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.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

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

31 December 2012	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	17,803	13	5	5	17,826
Commercial loans	634	1,534	7,891	6,679	16,738
Residential mortgage loans	3,453	1,605	650	948	6,656
Micro and SME loans	1,099	–	–	263	1,362
Finance lease receivables	4,144	535	44850	293	49,822
Total	**27,133**	**3,687**	**53,396**	**8,188**	**92,404**

31 December 2011	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	17,399	24	–	–	17,423
Commercial loans	2,124	48	–	11,000	13,172
Residential mortgage loans	8,345	645	56	1,300	10,346
Micro and SME 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 loans	12,538	11	3	93	12,645
Residential mortgage loans	6,967	1,387	275	1,956	10,585
Commercial loans	2,925	–	2,115	5,290	10,330
Micro and SME 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**

See Notes 10 and 11 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. The gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 82,524, GEL 87,836 and GEL 117,580 as at 31 December 2012, 31 December 2011 and 31 December 2010, respectively.

(Thousands of Georgian Lari)

27. 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.

	2012	*2011*	*2010*
Loans to customers:			
Commercial loans	86,910	108,730	263,163
Residential mortgage loans	7,312	7,453	4,386
Micro and SME loans	2,754	1,814	4,664
Consumer loans	1,573	960	2,092
Finance lease receivables	1,170	–	1,882
Total	**99,719**	**118,957**	**276,187**

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 Group. Impairment for all such loans is assessed individually, rather than applying standard collective impairment rates based on just prior history of losses of the Group.

Individually assessed allowances

For loan loss allowance determination purposes the Group considers all individually significant loans and classifies them between being individually impaired or not impaired. The 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 a proper credit rating. The allowances for non-significant loans that are determined to be individually impaired (see definition above) are also individually assessed. The allowance for losses for individually significant loans that are determined not to be individually impaired is assessed through the 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. 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 Group's overall policy.

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

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

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

	2012			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*
Assets:				
Cash and cash equivalents	430,523	273,637	46,357	750,517
Amounts due from credit institutions	340,177	23,659	32,723	396,559
Investment securities available-for-sale	460,102	70,738	3,858	534,698
Loans to customers	2,908,489	13,033	112,145	3,033,667
Finance lease receivables	66,487	–	5,199	71,686
All other assets	810,823	16,085	112,983	939,891
	5,016,601	**397,152**	**313,265**	**5,727,018**
Liabilities:				
Amounts due to customers	1,854,152	265,838	573,035	2,693,025
Amounts due to credit institutions	393,345	1,180,989	82,828	1,657,162
All other liabilities	227,776	11,513	7,756	247,045
	2,475,273	**1,458,340**	**663,619**	**4,597,232**
Net balance sheet position	**2,541,328**	**(1,061,188)**	**(350,354)**	**1,129,786**

	2011				*2010*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	312,697	301,166	14,868	628,731	188,426	364,616	58,542	611,584
Amounts due from credit institutions	282,353	387	6,790	289,530	91,715	14,538	10,216	116,469
Investment securities:								
– available-for-sale	419,555	–	21	419,576	290,333	60	4,547	294,940
– held-to-maturity	–	–	–	–	21	–	–	21
Loans to customers	2,508,545	–	44,897	2,553,442	2,135,962	8	215,727	2,351,697
Finance lease receivables	59,479	–	3,440	62,919	10,036	–	4,383	14,419
All other assets	691,047	253	19,763	711,063	498,175	9,508	108,109	615,792
	4,273,676	**301,806**	**89,779**	**4,665,261**	**3,214,668**	**388,730**	**401,524**	**4,004,922**
Liabilities:								
Amounts due to customers	2,514,541	108,337	112,344	2,735,222	1,659,774	101,960	264,574	2,026,308
Amounts due to credit institutions	42,761	788,067	90,344	921,172	145,398	962,691	30,838	1,138,927
All other liabilities	193,198	–	3,066	196,264	135,794	4,232	6,320	146,346
	2,750,500	**896,404**	**205,754**	**3,852,658**	**1,940,966**	**1,068,883**	**301,732**	**3,311,581**
Net balance sheet position	**1,523,176**	**(594,598)**	**(115,975)**	**812,603**	**1,273,702**	**(680,153)**	**99,792**	**693,341**

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.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Liquidity risk and funding management (continued)

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

	2012, %	*2011, %*	*2010, %*
Average liquidity ratio	40.0%	36.9%	35.6%
Maximum liquidity ratio	49.1%	47.2%	44.5%
Minimum liquidity ratio	31.1%	29.6%	29.1%

The average liquidity ratio is calculated on a standalone basis for JSC Bank of Georgia as the annual average (arithmetic mean) of daily liquidity ratios, computed as the ratio of liquid assets to liabilities determined by the National Bank of Georgia as follows:

Liquid assets comprise cash, cash equivalents and other assets that are immediately convertible into cash. Those assets include investment securities issued by the Georgian Government plus Certificates of Deposit issued by NBG and do not include 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 and amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities comprise the total balance sheet liabilities, less amounts due to credit institutions that are to be exercised or settled later than six months from the 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. The maximum and minimum liquidity ratios are taken from historical data of the appropriate reporting years.

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps compared to the Bank's standalone total regulatory capital calculated per NBG regulation. The ratios are assessed and monitored monthly and compared against set limits. In the 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 2012	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to customers	1,759,707	638,935	371,691	33,548	2,803,881
Amounts due to credit institutions	465,376	221,460	1,108,551	177,950	1,973,337
Other liabilities	27,565	76,982	9,356	–	113,903
Total undiscounted financial liabilities	**2,252,648**	**937,377**	**1,489,598**	**211,498**	**4,891,121**

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**

(Thousands of Georgian Lari)

27. 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 2012	337,465	177,907	236,948	12,846	765,166
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

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 is obliged to repay such deposits upon demand of a depositor (Note 17).

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, on 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 2012. During the year ended 31 December 2012, year ended 31 December 2011 and year ended 31 December 2010, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Increase in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of other comprehensive income 2012*
GEL	0.17%	(40)	–
USD	0.01%	(49)	–

Currency	*Decrease in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of other comprehensive income 2012*
GEL	0.17%	40	–
USD	0.01%	49	–

(Thousands of Georgian Lari)

27. Risk Management (continued)

Market risk (continued)

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

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 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 daily.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2012 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). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the last month. 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 2012, year ended 31 December 2011 and year ended 31 December 2010, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
	2012		*2011*		*2010*	
EUR	2.6%	(2,079)	4.4%	2,392	0.8%	234
GBP	1.8%	(19)	3.2%	13	0.8%	1
USD	0.8%	(2,331)	1.3%	1,927	0.3%	323

(Thousands of Georgian Lari)

27. Risk Management (continued)

Market risk (continued)

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 calculates effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product. 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 Group's income.

The 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
2012	(3,971)
2011	(5,416)
2010	(67,605)

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

Most of the Group's business in concentrated in Georgia. 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 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 the view of the Board, 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)

28. 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 2012*
Financial assets				
Investment securities available-for-sale	70,785	458,025	5,888	534,698
Other assets – derivative financial assets	–	36,784	–	36,784
Other assets – trading securities owned	971	–	–	971
	71,756	**494,809**	**5,888**	**572,453**
Financial liabilities				
Other liabilities – derivative financial liabilities	–	4,867	–	4,867
	–	**4,867**	**–**	**4,867**

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

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

(Thousands of Georgian Lari)

28. 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.

Derivative financial instruments
Derivative financial instruments 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 which are recorded at fair value:

	At 1 January 2010	Purchase of AFS securities	At 31 December 2010	Sale of AFS securities	At 31 December 2011	Sale of AFS securities	Transfers from level 2	At 31 December 2012
Level 3 financial assets								
Equity investment securities available-for-sale	4,265	1,144	5,409	(1,375)	4,034	(1,983)	3,837	5,888

The transfer of GEL 3,837 in 2012 was the 19.4% stake in PJSC Bank Pershyi. Gains or losses on level 3 financial instruments during year ended 31 December 2012 were nil.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions
The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
	2012		2011		2010	
Level 3 financial assets						
Equity investment securities available-for-sale	5,888	+/- 886	4,034	+/- 607	5,409	+/- 814

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

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

(Thousands of Georgian Lari)

28. 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 2012	*Fair value 2012*	*Unrecognised loss 2012*
Financial assets			
Cash and cash equivalents	750,517	750,517	–
Amounts due from credit institutions	396,559	396,559	–
Loans to customers	3,033,667	3,008,665	(25,002)
Finance lease receivables	71,686	71,686	–
Financial liabilities			
Amounts due to customers	2,693,025	2,707,231	(14,206)
Amounts due to credit institutions	1,657,162	1,657,162	–
Total unrecognised change in unrealised fair value			**(39,208)**

	Carrying value 2011	*Fair value 2011*	*Unrecognised gain (loss) 2011*	*Carrying value 2010*	*Fair value 2010*	*Unrecognised loss 2010*
Financial assets						
Cash and cash equivalents	628,731	628,731	–	611,584	611,584	–
Amounts due from credit institutions	289,530	289,530	–	116,469	116,469	–
Investment securities held-to-maturity	–	–	–	21	21	–
Loans to customers	2,553,442	2,546,648	(6,794)	2,351,697	2,319,388	(32,309)
Finance lease receivables	62,919	62,919	–	14,419	14,419	–
Financial liabilities						
Amounts due to customers	2,735,222	2,758,210	(22,988)	2,026,308	2,041,403	(15,095)
Amounts due to credit institutions	921,172	921,172	–	1,138,927	1,138,927	–
Total unrecognised change in unrealised fair value			**(29,782)**			**(47,404)**

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)

29. 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 27 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2012							
	On Demand	***≤ 3 Months***	***≤ 6 Months***	***≤ 1 Year***	***≤ 3 Years***	***≤ 5 Years***	***> 5 Years***	***Total***
Financial assets								
Cash and cash equivalents	586,852	163,665	–	–	–	–	–	750,517
Amounts due from credit institutions	322,871	48,143	5,790	4,557	9,136	4,448	1,614	396,559
Investment securities available–for–sale	75,938	168,670	114,920	41,159	76,185	51,777	6,049	534,698
Loans to customers	–	605,509	312,302	626,152	935,203	361,248	193,253	3,033,667
Finance lease receivables	–	9,058	5,716	10,353	25,886	13,049	7,624	71,686
Total	**985,661**	**995,045**	**438,728**	**682,221**	**1,046,410**	**430,522**	**208,540**	**4,787,127**
Financial liabilities								
Amounts due to customers	355,835	453,796	214,743	1,337,512	283,000	39,694	8,445	2,693,025
Amounts due to credit institutions	40,321	436,155	49,362	164,137	341,179	524,309	101,699	1,657,162
Total	**396,156**	**889,951**	**264,105**	**1,501,649**	**624,179**	**564,003**	**110,144**	**4,350,187**
Net	**589,505**	**105,094**	**174,623**	**(819,428)**	**422,231**	**(133,481)**	**98,396**	**436,940**

	2011							
	On Demand	***≤ 3 Months***	***≤ 6 Months***	***≤ 1 Year***	***≤ 3 Years***	***≤ 5 Years***	***> 5 Years***	***Total***
Financial assets								
Cash and cash equivalents	526,706	102,025	–	–	–	–	–	628,731
Amounts due from credit institutions	268,100	277	858	8,213	7,191	–	4,891	289,530
Investment securities available–for–sale	23,607	146,809	114,167	55,596	65,893	13,500	4	419,576
Loans to customers	2,245	498,214	258,886	471,732	723,420	345,412	253,533	2,553,442
Finance lease receivables	218	5,196	3,990	7,363	20,871	12,667	12,614	62,919
Total	**820,876**	**752,521**	**377,901**	**542,904**	**817375**	**371,579**	**271,042**	**3,954,198**
Financial liabilities								
Amounts due to customers	643,135	401,885	267,389	1,224,352	185,878	6,416	6,167	2,735,222
Amounts due to credit institutions	26,936	158,368	27,832	51,985	181,448	118,839	355,764	921,172
Total	**670,071**	**560,253**	**295,221**	**1,276,337**	**367,326**	**125,255**	**361,931**	**3,656,394**
Net	**150,805**	**192,268**	**82,680**	**(733,433)**	**450,049**	**246,324**	**(90,889)**	**297,804**

(Thousands of Georgian Lari)

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

	2010							
	On Demand	*≤ 3 Months*	*≤ 6 Months*	*≤ 1 Year*	*≤ 3 Years*	*≤ 5 Years*	*> 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	511,169	100,415	–	–	–	–	–	611,584
Amounts due from credit institutions	68,443	27,017	4,843	7,404	4,210	–	4,552	116,469
Investment securities:								
– available–for–sale	19,829	131,528	58,782	32,396	52,405	–	–	294,940
– held-to-maturity	–	–	–	21	–	–	–	21
Loans to customers	9,425	504,875	252,605	425,009	582,586	341,819	235,378	2,351,697
Finance lease receivables	142	3,265	2,192	3,229	4,922	669	–	14,419
Total	**609,008**	**767,100**	**318,422**	**468,059**	**644,123**	**342,488**	**239,930**	**338,9130**
Financial liabilities								
Amounts due to customers	269,673	414,905	139,635	1,057,158	129,691	9,363	5,883	2,026,308
Amounts due to credit institutions	25,835	142,401	865	24,285	333,663	45,299	566,579	1,138,927
Total	**295,508**	**557,306**	**140,500**	**1,081,443**	**463,354**	**54,662**	**572,462**	**3,165,235**
Net	**313,500**	**209,794**	**177,922**	**(613,384)**	**180,769**	**287,826**	**(332,532)**	**223,895**

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, 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. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in less than 1 year category in the table above. The remaining current accounts are included in on demand category.

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 2012 amounts due to customers amounted to GEL 2,693,025 (2011: GEL 2,735,222, 2010: GEL 2,026,308) and represented 59% (2011: 71%, 2010: 61%) of the 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 2012 amounts owed to credit institutions amounted to GEL 1,657,162 (2011: GEL 921,172, 2010: GEL 1,138,927) and represented 36% (2011: 24%, 2010: 34%) of total liabilities.

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

(Thousands of Georgian Lari)

30. 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 transactions 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:

	2012			*2011*			*2010*		
	Share-holders	*Asso-ciates*	*Key management personnel**	*Share-holders*	*Asso-ciates***	*Key management personnel**	*Share-holders*	*Asso-ciates*	*Key management personnel**
Loans outstanding at 1 January, gross	–	**304**	**6,558**	**–**	**2,191**	**4,758**	**–**	**9,255**	**5,791**
Loans issued during the year	13,033	–	7,457	–	954	7,951	–	624	7,125
Loan repayments during the year	–	(259)	(8,389)	–	(5,493)	(6,663)	–	(707)	(6,877)
Other movements	–	(45)	(490)	–	2,652	512	–	(6,981)	(1,281)
Loans outstanding at 31 December, gross	**13,033**	–	**5,136**	**–**	**304**	**6,558**	**–**	**2,191**	**4,758**
Less: allowance for impairment at 31 December	–	–	76	–	2	115	–	(1,564)	(119)
Loans outstanding at 31 December, net	**13,033**	–	**5,212**	**–**	**306**	**6,673**	**–**	**627**	**4,639**
Interest income on loans	–	14	640	–	870	718	–	344	611
Loan impairment charge	–	–	(1)	–	2	32	–	661	65
Deposits at 1 January	**–**	**171**	**5,903**	**36,410**	**726**	**8,999**	**12,098**	**506**	**6,919**
Deposits received during the year	–	11,040	28,561	35,365	24,660	21,574	41,646	16,185	36,658
Deposits repaid during the year	–	(11,191)	(25,264)	(32,147)	(25,229)	(22,254)	(16,851)	(16,127)	(33,522)
Other movements	–	(3)	481	(2,898)	14	(2,416)	(483)	162	(1,056)
Deposits at 31 December	**–**	**17**	**9,681**	**36,730**	**171**	**5,903**	**36,410**	**726**	**8,999**
Interest expense on deposits	–	(26)	(612)	(3,019)	(33)	(441)	(1,681)	(68)	(471)
Other income	–	–	121	693	–	78	1,671	–	69

**** Key management personnel include members of the Bank's Supervisory Board, Chief Executive Officer and Deputies.***
***** 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 recognised on these loans in the consolidated income statement for the year ended 31 December 2011. GEL 36 gross loan remained outstanding as at 31 December 2011 and was completely repaid during 2012.***

Compensation of key management personnel comprised the following:

	2012	2011	2010
Salaries and other benefits	2,656	2,803	4,564
– Among them, termination benefits	–	–	*426*
Share-based payments compensation (Notes 24 and 26)	8,048	8,308	7,156
– Among them, termination benefits	–	–	*1,183*
Social security costs	24	37	31
Total key management compensation	**10,728**	**11,148**	**11,751**

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 26). The number of key management personnel at 31 December 2012 was 15 (31 December 2011: 16, 31 December 2010: 13).

(Thousands of Georgian Lari)

31. 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 2012, the Bank and the Group complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Group 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 shareholder 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 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 standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2012, 31 December 2011 and 31 December 2010 the Bank's capital adequacy ratio on this basis was as follows:

	2012	*2011*	*2010*
Core capital	739,880	512,238	494,128
Supplementary capital	389,685	463,825	423,389
Less: Deductions from capital	(262,616)	(184,323)	(367,418)
Total regulatory capital	**866,949**	**791,740**	**550,099**
Risk-weighted assets	**5,352,187**	**4,872,931**	**3,800,624**
Total capital adequacy ratio	**16.2%**	**16.2%**	**14.5%**

Regulatory capital consists of Core capital, which comprises share capital, 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 Group's capital adequacy ratio computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2012, 31 December 2011 and 31 December 2010, was as follows:

	2012	*2011*	*2010*
Tier 1 capital	1,060,678	764,377	637,971
Tier 2 capital	297,236	380,301	404,788
Less: Deductions from capital	(46,121)	(49,341)	(70,722)
Total capital	**1,311,793**	**1,095,337**	**972,037**
Risk-weighted assets	**4,785,870**	**3,839,462**	**3,653,247**
Total capital ratio	27.4%	28.5%	26.6%
Tier 1 capital ratio	22.2%	19.9%	17.5%
Minimum capital adequacy ratio	**8.0%**	**8.0%**	**8.0%**