JSC Bank of Georgia and Subsidiaries
Consolidated Financial Statements

Year ended 31 December 2009
Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of JSC Bank of Georgia and its Subsidiaries which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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 JSC Bank of Georgia and its Subsidiaries as at 31 December 2009, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

15 March 2010

ERNST & YOUNG LLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

(Thousands of Georgian Lari)

	Notes	2009	2008
Assets			
Cash and cash equivalents	7	337,372	397,591
Amounts due from credit institutions	8	85,137	99,633
Loans to customers	9	1,661,331	2,039,022
Finance lease receivables	10	16,896	41,605
Investment securities:			
– available-for-sale	11	19,590	33,737
– held-to-maturity	11	249,196	22,845
Investments in associates	12	10,323	16,716
Investment properties	13	79,509	47,289
Property and equipment	14	278,729	301,784
Goodwill and other intangible assets	15	85,442	152,459
Current income tax assets	16	7,997	8,095
Deferred income tax assets	16	15,487	4,691
Prepayments		18,140	18,319
Other assets	18	48,280	75,121
Total assets		**2,913,429**	**3,258,907**
Liabilities			
Amounts due to customers	20	1,272,470	1,193,124
Amounts due to credit institutions	19	928,615	1,216,722
Current income tax liabilities	16	574	779
Deferred income tax liabilities	16	24,661	23,615
Provisions	17,22	2,126	4,263
Other liabilities	18	86,566	101,555
Total liabilities		**2,315,012**	**2,540,058**
Equity	21		
Share capital		31,306	31,253
Additional paid-in capital		478,779	468,732
Treasury shares		(1,677)	(2,018)
Other reserves		24,387	26,201
Retained earnings		46,163	141,491
Total equity attributable to shareholders of the Bank		**578,958**	**665,659**
Minority interest		19,459	53,190
Total equity		**598,417**	**718,849**
Total liabilities and equity		**2,913,429**	**3,258,907**

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

Irakli Gilauri Chief Executive Officer

David Vakhtangishvili Chief Financial Officer

15 March 2010

The accompanying notes on pages 6 to 73 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

(Thousands of Georgian Lari)

	Notes	*2009*	*2008*
Interest income			
Loans to customers		361,176	363,013
Finance lease receivables		5,844	7,010
Investment securities – held-to-maturity		5,725	16,457
Amounts due from credit institutions		5,037	10,732
Investment securities – available-for-sale		1,276	6,727
		379,058	**403,939**
Interest expense			
Amounts due to customers		(96,749)	(85,358)
Amounts due to credit institutions		(91,582)	(97,035)
Debt securities issued		(186)	(706)
		(188,517)	**(183,099)**
Net interest income before impairment charge on interest-earning assets		**190,541**	**220,840**
Impairment charge on loans to customers	9	(118,882)	(122,812)
Impairment charge on finance lease receivables	10	(6,859)	(1,335)
Net interest income after impairment charge		**64,800**	**96,693**
Fee and commission income		64,599	63,503
Fee and commission expense		(9,574)	(13,534)
Net fee and commission income	23	**55,025**	**49,969**
Net gains (losses) from for trading securities		2,763	(5,447)
Net gains from investment securities available-for-sale		174	513
Net losses from derivative financial instruments		(6,266)	–
Net losses from revaluation of investment properties	13	(4,087)	(389)
Net gains from foreign currencies:			
– dealing		25,945	39,443
– translation differences		2,821	7,691
Net insurance premiums earned	24	45,477	35,911
Share of loss of associates	12	(2,649)	(713)
Other operating income		17,908	14,747
Other non-interest income		**82,086**	**91,756**
Depreciation, amortization and impairment	14, 15	(101,700)	(20,532)
Salaries and other employee benefits	25	(100,505)	(108,767)
General and administrative expenses	25	(57,339)	(68,649)
Net insurance claims incurred	24	(30,102)	(26,895)
Impairment charge on other assets and provisions	17	(6,431)	(4,551)
Other operating expenses		(11,740)	(9,828)
Other non-interest expenses		**(307,817)**	**(239,222)**
Loss before income tax benefit		**(105,906)**	**(804)**
Income tax benefit	16	6,998	978
(Loss) profit for the year		**(98,908)**	**174**
Attributable to:			
– shareholders of the Bank		(91,370)	3,897
– minority interest		(7,538)	(3,723)
		(98,908)	**174**
Earnings per share:	21		
– basic earnings per share		(2.996)	0.129
– diluted earnings per share		(2.996)	0.129

The accompanying notes on pages 6 to 73 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

(Thousands of Georgian Lari)

	Note	2009	2008
(Loss) profit for the year		**(98,908)**	**174**
Other comprehensive income			
– Revaluation of property, plant & equipment		(1,842)	(10,455)
– Revaluation of available-for-sale securities		7,533	(9,687)
– Realized losses on available-for-sale securities reclassified to the consolidated income statement		(174)	(513)
– Losses from currency translation differences		(12,145)	(22,435)
– Unrealized gain from acquiring shares in existing subsidiaries		7,624	–
Income tax relating to components of other comprehensive income	16	(704)	3,189
Other comprehensive income (loss) for the year, net of tax		**292**	**(39,901)**
Total comprehensive loss for the year		**(98,616)**	**(39,727)**
Attributable to:			
– shareholders of the Bank		(91,078)	(36,004)
– minority interest		(7,538)	(3,723)
		(98,616)	**(39,727)**

The accompanying notes on pages 6 to 73 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

(Thousands of Georgian Lari)

	Attributable to shareholders of the Bank							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Minority interests*	*Total equity*
31 December 2007	**27,155**	**315,415**	**(1,737)**	**67,354**	**136,342**	**544,529**	**13,462**	**557,991**
Total comprehensive income (loss)	–	–	–	(39,901)	3,897	(36,004)	(3,723)	(39,727)
Depreciation of revaluation reserve, net of tax	–	–	–	(1,252)	1,252	–	–	–
Issuance of shares arising from business combination (Note 21)	89	573	–	–	–	662		662
Increase in share capital arising from share-based payments (Note 21)	9	8,590	341	–	–	8,940	–	8,940
Share offering costs adjustment	–	(357)	–	–	–	(357)	–	(357)
Increase in share capital from issuance of GDRs (Note 21)	4,000	146,594	–	–	–	150,594	–	150,594
Acquisition of additional interests in existing subsidiaries by minority shareholders	–	–	–	–	–	–	31,278	31,278
Minority interests arising on acquisition of subsidiary	–	–	–	–	–	–	12,173	12,173
Sale of treasury shares	–	5,544	256	–	–	5,800	–	5,800
Purchase of treasury shares	–	(7,627)	(878)	–	–	(8,505)	–	(8,505)
31 December 2008	**31,253**	**468,732**	**(2,018)**	**26,201**	**141,491**	**665,659**	**53,190**	**718,849**
Total comprehensive income (loss)	–	–	–	1,563	(92,641)	(91,078)	(7,538)	(98,616)
Depreciation of revaluation reserve, net of tax	–	–	–	(3,377)	3,377	–	–	–
Increase in share capital arising from share-based payments (Note 21)	53	2,523	153	–	–	2,729	–	2,729
Share offering costs adjustment	–	306	–	–	–	306	–	306
Equity component of compound financial instrument	–	9,769	–	–	–	9,769	–	9,769
Acquisition of additional interests in existing subsidiaries by minority shareholders	–	–	–	–	(6,064)	(6,064)	(1,479)	(7,543)
Acquisition of minority interests in existing subsidiaries	–	–	–	–	–	–	(24,730)	(24,730)
Minority interests arising on acquisition of subsidiary	–	–	–	–	–	–	16	16
Sale of treasury shares	–	1,154	642	–	–	1,796	–	1,796
Purchase of treasury shares	–	(3,705)	(454)	–	–	(4,159)	–	(4,159)
31 December 2009	**31,306**	**478,779**	**(1,677)**	**24,387**	**46,163**	**578,958**	**19,459**	**598,417**

The accompanying notes on pages 6 to 73 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

(Thousands of Georgian Lari)

	Notes	2009	2008
Cash flows from operating activities			
Interest received		377,043	384,802
Interest paid		(205,054)	(173,534)
Fees and commissions received		64,599	63,503
Fees and commissions paid		(9,574)	(13,534)
Net realized gains (losses) from trading securities		587	(5,432)
Net realized gains from investments securities		174	498
Net realized gains from foreign currencies		25,945	39,443
Recoveries of loans to customers	9	32,579	11,176
Insurance premiums received		31,319	24,262
Insurance claims paid		(16,801)	(11,095)
Other operating income received		22,022	11,499
Salaries and other employee benefits paid		(88,365)	(106,605)
General and administrative and operating expenses paid		(80,026)	(62,174)
Cash flows from operating activities before changes in operating assets and liabilities		**154,448**	**162,809**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		12,646	62,312
Loans to customers		239,093	(488,574)
Finance lease receivables		12,448	3,722
Prepayments and other assets		(28,696)	(3,678)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		(276,916)	339,654
Amounts due to customers		81,713	(211,774)
Other liabilities		455	(9,813)
Net cash flows from (used in) operating activities before income tax		**195,191**	**(145,342)**
Income tax paid		(1,275)	(19,580)
Net cash flows from (used in) from operating activities		**193,916**	**(164,922)**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	5	(2,970)	(41,740)
Purchase of additional interests by minority shareholders		(1,479)	31,794
Proceeds from sale of investment securities: available-for-sale		25,323	166,175
Purchase of investment securities: held-to-maturity		(226,804)	–
Purchase of investments in associates	12	–	(13,355)
Proceeds from sale of investments in associates	12	24	860
Purchase of investment properties	13	(495)	(12,613)
Proceeds from sale of investment properties	13	755	–
Purchase of property and equipment and intangible assets	14,15	(24,524)	(122,881)
Net cash used in investing activities		**(230,170)**	**8,240**
Cash flows from financing activities			
Proceeds from increase in share capital		306	150,594
Purchase of treasury shares		(4,159)	(8,505)
Sale of treasury shares		1,796	5,800
Purchase of additional interests in existing subsidiaries, net of cash acquired		(24,730)	–
Redemption of debt securities issued		–	(4,988)
Net cash (used in) from financing activities		**(26,787)**	**142,901**
Effect of exchange rates changes on cash and cash equivalents		2,822	5,602
Net decrease in cash and cash equivalents		**(60,219)**	**(8,179)**
Cash and cash equivalents, beginning		**397,591**	**405,770**
Cash and cash equivalents, ending	7	**337,372**	**397,591**

The accompanying notes on pages 6 to 73 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

JSC Bank of Georgia (the "Bank") was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia, and was formerly known as State Bank Binsotsbanki. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994. The Bank is the ultimate parent of a group of companies (the "Group") incorporated in Georgia, Ukraine, Belarus and Cyprus, primary business activities include providing banking, leasing, insurance, brokerage and wealth management services, to corporate and individual customers. The list of companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and international and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2009 the Bank has 141 operating outlets in all major cities of Georgia (2008: 151). The Bank's registered legal address is 3 Pushkin Street, Tbilisi 0105, Georgia.

As of 31 December 2009 and 2008 the following shareholders owned more than 4% of the outstanding shares of the Bank. Other shareholders individually owned less than 4% of the outstanding shares.

Shareholder	*31 December 2009, %*	*31 December 2008, %*
Bank of New York (Nominees), Limited	88.86%	77.45%
East Capital Financial Institutions	4.36%	4.37%
Firebird Avrora Fund	–	4.68%
Firebird Republics Fund	–	4.58%
Others (less than 4% individually)	6.78%	8.92%
Total	**100.00%**	**100.00%**

As of 31 December 2009, the members of the Supervisory Board and Board of Directors owned 612,962 shares and Global Depositary Receipts ("GDRs") (1.96%; 2008: 468,827 shares and GDRs 1.50%) of the Bank. Interests of the members of the Supervisory Board and Management Board were as follows:

Shareholder	*31 December 2009, shares held*	*31 December 2008, shares held*
Irakli Gilauri	216,230	136,303
Sulkhan Gvalia	136,049	166,907
Nicholas Enukidze	122,259	75,377
Allan Hirst	46,772	10,685
Avto Namicheishvili	29,999	12,489
Irakli Burdiladze	23,035	10,036
Kakha Kiknavelidze	15,027	4,938
Mikheil Gomarteli	9,916	–
David Morisson	7,342	–
Giorgi Chiladze	6,333	–
Ramaz Kukuladze*	–	52,092
Total	**612,962**	**468,827**

In addition to shares held, the members of the Supervisory Board and Management Board were awarded 463,912 and 198,139 Global Depository Receipts ("GDR") in 2009 and 2008, respectively. The awards are subject to three-year vesting. As of 31 December 2009 419,814 GDRs owned by the members of the Supervisory Board and Management Board vested and comprised as follows (in 2008: 313,330):

Member of the Supervisory Board and/or Management Board	*31 December 2009, GDRs vested*	*31 December 2008, GDRs vested*
Irakli Gilauri	214,643	134,716
Nicholas Enukidze	122,259	74,332
Avto Namicheishvili	29,999	11,667
Irakli Burdiladze	22,665	9,666
Sulkhan Gvalia	13,999	26,857
Mikheil Gomarteli	9,916	–
Giorgi Chiladze	6,333	–
Kakha Kiknavelidze	–	4,000
Ramaz Kukuladze*	–	52,092
Total	**419,814**	**313,330**

* Resigned from the Management Board of the Bank on 15 November 2009.

(Thousands of Georgian Lari)

2. Basis of Preparation

General

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

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

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

Subsidiaries

The consolidated financial statements as of 31 December 2009 and 2008 include the following direct and indirect subsidiaries:

	Ownership / voting, %					
Subsidiaries	***31 December 2009***	***31 December 2008***	***Country of incorporation***	***Industry***	***Date of incorporation***	***Date of acquisition***
JSC BG Bank	99.4%	99.4%	Ukraine	Banking	26/01/1994	1/10/2007
Valimed, LLC	100.0%	100.0%	Belarus	Investment	14/09/2000	3/6/2008
⇒ Proscale M, UE	100.0%	–	Belarus	Business servicing	15/05/2003	4/12/2009
⇒ JSC Belarusky Narodny Bank	99.98%	70.0%	Belarus	Banking	16/04/1992	3/6/2008
⇒ BNB Leasing, LLC	76.0%	76.0%	Belarus	Leasing	30/03/2006	3/6/2008
JSC BG Capital (Georgia) (formerly known as JSC Galt and Taggart Securities)	100.0%	100.0%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
⇒ Benderlock Investments Limited	100.0%	–	Cyprus	Investments	12/5/2009	13/10/2009
⇒ BG Tax Advisory, LLC (formerly known as Galt and Taggart Tax Advisory, LLC)	100.0%	100.0%	Georgia	Tax consulting	25/09/2007	–
⇒ BG Commodities (Georgia), LLC	100.0%	–	Georgia	Commodity Trading	16/4/2009	–
⇒ BG Commodities (Ukraine), LLC	100.0%	–	Ukraine	Commodity Trading	24/11/2009	–
⇒ Galt and Taggart Holdings Limited	100.0%	100.0%	Cyprus	Investment	3/7/2006	–
⇒ BG Trading Limited (formerly known as Galt and Taggart Trading Limited)	100.0%	100.0%	Cyprus	Investment	26/03/2007	–
⇒ JSC Galt and Taggart Securities, SA (Moldova) [(c)]	95.1%	95.1%	Moldova	Investment	7/7/2008	–
⇒ BG Capital (Ukraine), LLC (formerly known as Galt and Taggart Securities (Ukraine), LLC)	100.0%	100.0%	Ukraine	Brokerage	23/10/2006	–
⇒ BG Capital (Belarus), LLC (formerly known as Galt and Taggart Securities (Belarus), LLC)	100.0%	100.0%	Belarus	Brokerage	19/02/2008	–
⇒ Brooksby Investments Limited	100.0%	100.0%	Cyprus	Investments	4/3/2008	18/06/2008
⇒ Galt & Taggart Securities MMC, LLC	(a)	75.0%	Azerbaijan	Investment banking and brokerage services	30/06/2008	–
⇒ GTAM Limited	(a)	80.0%	Cyprus	Investment activity	23/10/2007	–
⇒ Galt and Taggart Asset Management, LLC	(a)	100.0%	Georgia	Asset management	31/05/2007	–
⇒ JSC Belorussian Investments	(a)	100.0%	Georgia	Consumer goods production & distribution	14/05/2008	–
⇒ JSC Liberty Financial Opportunities	(a)	100.0%	Georgia	Investment	3/9/2008	–

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries (continued)

Subsidiaries	Ownership / voting, % December 31, 2009	Ownership / voting, % December 31, 2008	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC Insurance Company Aldagi BCI	100.0%	100.0%	Georgia	Insurance	22/06/2007	–
⇒ JSC My Family Clinic	100.0%	100.0%	Georgia	Healthcare	3/10/2005	–
⇒ JSC Kutaisi St. Nicholas Surgery Hospital	55.0%	55.0%	Georgia	Medical services	3/11/2000	20/05/2008
Georgian Leasing Company, LLC	100.0%	100.0%	Georgia	Leasing	29/10/2001	31/12/2004
⇒ JSC DBL.ge	100.0%	100.0%	Georgia	Investment	23/04/2007	–
⇒ JSC DBL Capital	100.0%	100.0%	Georgia	Brokerage	27/04/2007	–
GC Holdings, LLC	100.0%	100.0%	Georgia	Investment	29/10/2007	–
⇒ GC Ukraine, LLC	100.0%	100.0%	Ukraine	Card processing	30/07/2008	–
⇒ JSC Georgian Card	55.8%	55.7%	Georgia	Card processing	17/01/1997	20/10/2004
⇒ JSC Nova Technology	(a)	51.0%	Georgia	Electronic payment services	19/03/2007	11/11/2007
⇒ Direct Debit Georgia, LLC	100.0%	100.0%	Georgia	Electronic payment services	7/3/2006	–
JSC SB Real Estate	61.4%	52.1%	Georgia	Real estate	27/09/2006	–
JSC Liberty Consumer	65.3%	65.4%	Georgia	Investment	24/05/2006	–
⇒ Vere+, LLC	(c)	100.0%	Georgia	Real estate	22/05/1996	6/2/2007
⇒ Alegro, LLC	(d)	100.0%	Georgia	Commercial	9/9/1996	12/3/2008
⇒ JSC SB Outdoor & Indoor	100.0%	100.0%	Georgia	Advertising	9/6/2006	–
⇒ JSC Intertour	83.6%	83.6%	Georgia	Travel agency	29/03/1996	25/04/2006
⇒ Holiday Travel, LLC	100.0%	100.0%	Georgia	Travel agency	11/2/2005	4/9/2006
⇒ JSC Prime Fitness	100.0%	100.0%	Georgia	Fitness centre	3/7/2006	–
⇒ MetroNet, LLC	100.0%	100.0%	Georgia	Communication services	23/04/2007	–
⇒ Planeta Forte, LLC	51.0%	–	Georgia	Newspaper Retail	31/10/1995	1/1/2009
JSC Galt and Taggart Holdings (Georgia)	100.0%	100.0%	Georgia	Investment	4/11/2008	–
⇒ JSC Club 24 (b)	100.0%	100.0%	Georgia	Entertainment	27/11/2007	–
⇒ Metro Service +, LLC	100.0%	100.0%	Georgia	Business servicing	10/5/2006	–
⇒ SB Transport, LLC	(b)	100.0%	Georgia	Transportation	20/02/2007	–
⇒ JSC SB Trade	(b)	100.0%	Georgia	Import and distribution	26/02/2007	–
⇒ Georgia Financial Investments, LLC	100.0%	–	Israel	Information Sharing and Market Research	9/2/2009	–
⇒ Real Estate Brokerage-Presto, LLC	100.0%	100.0%	Georgia	Real estate brokerage	16/11/2007	–
⇒ JSC SB Immobiliare	100.0%	100.0%	Georgia	Real estate, Construction	12/3/2008	–
⇒ JSC SB Iberia	100.0%	49.0%	Georgia	Real estate, Construction	13/12/2007	19/08/2009
⇒ JSC SB Iberia 2	100.0%	49.0%	Georgia	Real estate, Construction	28/3/2008	19/08/2009
JSC United Securities Registrar of Georgia	100.0%	100.0%	Georgia	Registrar	25/01/199	30/09/2006

(a) No longer Group subsidiary due to sale in 2009.
(b) JSC Galt and Taggart Holdings (Georgia) contributed its investments in JSC SB Trade and SB Transport, LLC to the capital of Club 24, LLC. Both of these companies merged to Club 24, LLC, subsequently reorganized into a joint stock company.
(c) Liquidated in 2009.
(d) Transferred to JSC Caucasus Energy and Infrastructure (former subsidiary of the Group sold in 2008) in 2009 in exchange of a loan payable.
(e) Dormant.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

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

Improvements to IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. Amendments included in May 2008 "Improvements to IFRS" did not have any impact on the accounting policies, financial position or performance of the Group.

IAS 1 Presentation of Financial Statements (Revised)

A revised IAS 1 was issued in September 2007, and became effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Group has elected to present comprehensive income in two separate statements: income statement and statement of comprehensive income. The Group has not provided a restated comparative statement of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the consolidated financial statements.

IFRS 7 "Financial Instruments: Disclosures"

The amendments to IFRS 7 were issued in March 2009, to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

IAS 23 "Borrowing Costs"(Revised)

A revised IAS 23 Borrowing costs was issued in March 2007, and became effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group adopted this as a prospective change. No changes were made for borrowing costs incurred to 1 January 2009 that have been expensed.

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

IAS 24 "Related party disclosures" (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments were issued in February 2008, and became effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments did not have any impact on the Group.

Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations

Amendment to IFRS 2 was issued in January 2008 and became effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment did not have any impact on the financial position or performance of the Group.

IFRS 8 "Operating Segments"

IFRS 8 became effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any impact on the financial position or performance of the Group. The Group determined that the operating segments are the same as the business segments previously identified under IAS 14 'Segment Reporting".

IFRIC 13 "Customer Loyalty Programmes"

IFRIC Interpretation 13 was issued in June 2007 and became effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation did not have any impact on the Group's consolidated financial statements as no such schemes currently exist.

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. This interpretation did not have any impact on the Group's consolidated financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation did not have any impact on the Group's financial statements.

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

Amendments to IFRIC 9 "Reassessment of Embedded Derivatives"

The amendments require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. The amendments are applicable for annual periods ending on or after 30 June 2009. The application of the amendment did not have a significant impact on the Group's financial statements as no reclassifications were made for instruments that contained embedded derivatives.

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 was issued in January 2009 and becomes effective for transfers of assets from customers received on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. This interpretation did not have any impact on the financial position or performance of the Group as the Group has no transfers of assets from its customers.

Subsidiaries

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

Acquisition of subsidiaries

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

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value the difference is recognised directly in the consolidated income statement.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Subsidiaries (continued)

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases at the date of increase in ownership interests are charged or credited to retained earnings.

Investments in associates

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

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

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Financial assets (continued)

Loans and receivables

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

Available-for-sale financial assets

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

Determination of fair value

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

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

Offsetting

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

Cash and cash equivalents

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

3. Summary of Significant Accounting Policies (continued)

Derivative financial instruments

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

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

Promissory notes

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

Borrowings

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

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

Leases

i. Finance – Group as lessor

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

ii. Operating – Group as lessee

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

iii. Operating – Group as lessor

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

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

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

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

Amounts due from credit institutions and loans to customers

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

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

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

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

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

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Held-to-maturity financial investments

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

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

Available-for-sale financial assets

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

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast 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

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. 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 effective interest rate.

De-recognition of financial assets and liabilities

Financial assets

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

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

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

De-recognition of financial assets and liabilities (continued)

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

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

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

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.

(Thousands of Georgian Lari)

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

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

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

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

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

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

	Years
Buildings	50
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5

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

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

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. 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. Where goodwill forms part of a cash-generating unit (group of cash-generating units) 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.

Other intangible assets

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Insurance and reinsurance receivables

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

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

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

Insurance liabilities

General insurance liabilities

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

Provision for unearned premiums

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

Liability adequacy test

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions

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

Equity-settled transactions

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

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

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

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

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

Share capital

Share capital

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

Treasury shares

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

Dividends

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

Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Brokerage, Wealth Management, Asset Management, Insurance and Corporate Center.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

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.

Fee and commission income

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

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

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

Fee income from providing transaction services

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

Dividend income

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

Insurance premium income

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Insurance claims

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

Functional and reporting currencies and foreign currency translation

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

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2009 and 2008 were 1.6858 and 1.6670 Lari to USD 1 and 2.4195 and 2.3648 Lari to EUR 1, respectively.

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

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

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:

Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items

The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Group's consolidated financial statements as the Group has not entered into any such hedges.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

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

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and become effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Group expects that this interpretation will have no impact on the Group's consolidated financial statements.

Improvements to IFRSs

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" will have no impact on the accounting policies, financial position or performance of the Group, except the following amendments resulting in changes to accounting policies, as described below.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group will continue to disclose this information.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment will have no impact on the Group as the annual impairment test is performed before aggregation.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

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

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

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

IFRS 9 "Financial Instruments"

In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

4. Significant Accounting Judgments and Estimates

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

Fair value of financial instruments

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

Determination of collateral value

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

Measurement of fair value of investment properties and property and equipment

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

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

4. Significant Accounting Judgments and Estimates (continued)

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.

Contingent liabilities

The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required. As of 31 December 2009, the Group did not record any contingent liabilities.

Impairment of goodwill

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

Impairment of long-lived assets

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

Impairment of investments

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

(Thousands of Georgian Lari)

5. Business Combinations

Acquisitions in 2009

Planeta Forte, LLC

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

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

The net cash outflow on acquisition was as follows:

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

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2009 (continued)

JSC SB Iberia

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

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

The net cash outflow on acquisition was as follows:

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

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

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2009 (continued)

JSC SB Iberia 2

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

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

The net cash outflow on acquisition was as follows:

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

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

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2008

JSC Belarusky Narodny Bank

On 1 July 2008 the Bank acquired 70% of JSC "Belarusky Narodny Bank", a banking institution operating in Belarus. The fair values of identifiable assets, liabilities and contingent liabilities of JSC Belarusky Narodny Bank as of the date of acquisition were estimated at:

	Fair value recognized on acquisition	***Carrying value***
Cash and cash equivalents	8,908	8,908
Due from credit institutions	1,022	1,022
Loans to customers	36,234	36,234
Deferred tax asset	297	297
Property and equipment	17,445	17,445
All other assets	520	520
	64,426	**64,426**
Amounts due to credit institutions	9,501	9,501
Amounts due to customers	18,231	18,231
All other liabilities	513	513
	28,245	**28,245**
Fair value of net assets	**36,181**	**36,181**
Share in fair value of net assets acquired (70%)	25,327	
Recognized Core Deposit Intangible	843	
Goodwill arising on acquisition	23,394	
Consideration paid	**49,564**	

The net cash outflow on acquisition was as follows:

	2008
Cash paid	49,564
Cash acquired with the subsidiary	(8,908)
Net cash outflow	**40,656**

If the combination had taken place at the beginning of the year, the net income of the Group would have been GEL 1,887 and the total revenue would have been GEL 367,820.

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.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2008 (continued)

JSC Kutaisi St. Nickolas Surgery Clinic

On 31 May 2008 JSC Insurance Company Aldagi BCI, a fully owned subsidiary of the Bank, acquired 55% of JSC "Kutaisi St. Nickolas Surgery Clinic". The fair values of identifiable assets, liabilities and contingent liabilities of JSC "Kutaisi St. Nickolas Surgery Clinic" as of the date of acquisition were estimated at:

	Fair value recognized on acquisition	*Carrying value*
Cash and cash equivalents	7	7
Property and equipment	2,802	2,802
All other assets	223	223
	3,032	**3,032**
Amounts due to credit institutions	457	457
All other liabilities	791	791
	1,248	**1,248**
Fair value of net assets	**1,784**	**1,784**
Share in fair value of net assets acquired (55%)	981	
Goodwill arising on acquisition	288	
Consideration given	**1,269**	

The net cash outflow on acquisition was as follows:

	2008
Cash paid	1,091
Cash acquired with the subsidiary	(7)
Net cash outflow	**1,084**

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

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

(Thousands of Georgian Lari)

6. Segment Information

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

Retail Banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities.
Corporate Banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Brokerage	Principally providing brokerage, custody and corporate finance services to its individual as well as corporate customers. Brokerage also possesses its own proprietary book for trading as well as for non-trading purposes, comprising primarily of trading and investment securities.
Wealth Management	Principally providing wealth management services to VIP individual customers.
Asset Management	Principally providing asset management services to VIP corporate customers.
Insurance	Principally providing wide-scale insurance services to corporate and individual customers.
Corporate Centre	Principally providing back office services to all operating segments of the Bank

For purposes of presentation in these consolidated financial statements, due to the insignificance of certain operating segments to be separately shown, Management has combined Brokerage, Asset Management and Wealth Management operating segments into one. Therefore, operating segment information presented in these consolidated financial statements is classified as follows:

Retail Banking	Brokerage and Asset and Wealth Management
Insurance	Corporate Centre
Corporate Banking	

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 differently from profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2009 or 2008.

(Thousands of Georgian Lari)

6. Segment Information (continued)

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

	Retail banking	*Corporate banking*	*Brokerage and Asset and wealth management*	*Corporate center*	*Insurance*	*Inter – company elimination*	*Total*
Revenue							
External operating income:							
Net interest income	128,005	114,698	(5,161)	(45,966)	(1,035)	–	190,541
Net fees and commission income	31,376	19,241	3,727	(41)	722	–	55,025
Net foreign currency gains	1,495	4,892	1,372	20,946	61	–	28,766
Other external revenues	1,139	4,012	(11,470)	10,245	49,394	–	53,320
Operating income from other segments	519	(1,678)	(7,913)	(2,811)	(1,352)	13,235	–
Total operating income	**162,534**	**141,165**	**(19,445)**	**(17,627)**	**47,790**	**13,235**	**327,652**
Impairment charge on interest earning assets	53,230	49,760	2,711	21,467	–	(1,427)	125,741
Results							
Segment results	(21,975)	18,535	(37,711)	(69,065)	2,883	1,427	(105,906)
Unallocated expenses							–
Loss before income tax benefit							**(105,906)**
Income tax benefit							6,998
Loss for the year							**(98,908)**
Assets and liabilities							
Segment assets	1,228,861	1,392,189	162,902	103,242	48,351	(45,600)	2,889,945
Unallocated assets							23,484
Total assets							**2,913,429**
Segment liabilities	893,703	1,143,356	215,630	43,452	39,236	(45,600)	2,289,777
Unallocated liabilities							25,235
Total liabilities							**2,315,012**
Other segment information							
Capital expenditures, of which:	**11,580**	**11,167**	**6,246**	**2,968**	**982**	**–**	**32,943**
Property, plant and equipment	9,328	9,573	1,081	2,485	960	–	23,427
Intangible assets	2,252	1,594	5,165	483	22	–	9,516
Depreciation and impairment	9,689	10,047	1,392	4,033	555	–	25,716
Amortization and impairment	41,835	28,811	4,801	518	19	–	75,984
Share of loss of associates	–	–	(2,649)	–	–	–	(2,649)

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2008:

	Retail banking	*Corporate banking*	*Brokerage and Asset and wealth management*	*Corporate center*	*Insurance*	*Inter – company elimination*	*Total*
Revenue							
External operating income:							
Net interest income	155,290	89,724	597	(24,677)	(94)	–	220,840
Net fees and commission income	30,317	17,047	5,684	2,259	(5,338)	–	49,969
Net foreign currency gains	3,918	7,471	3,259	32,486	–	–	47,134
Other external revenues	3,862	1,181	(699)	1,993	38,285	–	44,622
Operating income from other segments	(744)	(284)	(3,944)	–	(466)	5,438	–
Total operating income	**192,643**	**115,139**	**4,897**	**12,061**	**32,387**	**5,438**	**362,565**
Impairment charge on interest earning assets	57,343	62,947	1,596	7,907	–	(5,646)	124,147
Results							
Segment results	33,003	24,222	(14,971)	(30,260)	(6,951)	5,647	10,690
Unallocated expenses							(11,494)
Loss before income tax benefit							**(804)**
Income tax benefit							978
Profit for the year							**174**
Assets and liabilities							
Segment assets	1,401,747	1,538,783	134,974	113,061	51,377	6,179	3,246,121
Unallocated assets							12,786
Total assets							**3,258,907**
Segment liabilities	965,078	1,275,716	135,977	80,903	57,990	–	2,515,664
Unallocated liabilities							24,394
Total liabilities							**2,540,058**
Other segment information							
Capital expenditures, of which:	**51,193**	**56,542**	**9,460**	**2,842**	**2,842**	**–**	**122,879**
Property, plant and equipment	44,403	50,971	9,073	2,601	2,834	–	109,882
Intangible assets	6,790	5,571	387	241	8	–	12,997
Depreciation and impairment	9,263	7,583	1,388	271	409	–	18,914
Amortization and impairment	993	450	65	80	30	–	1,618
Share of loss of associates	–	–	(713)	–	–	–	(713)

Geographic information

The Group operates in three main geographical markets: (a) Georgia, (b) Ukraine and Cyprus and (c) Belarus. The following table shows the distribution of the Group's external income, total assets and capital expenditure allocated based on the location of the Group's assets, for the year ended 31 December 2009:

	Georgia 2009	*Ukraine and Cyprus 2009*	*Belarus 2009*	*Total 2009*
External income				
Net interest income	171,203	14,416	4,922	190,541
Net fee and commission income (expense)	50,132	3,404	1,489	55,025
Net foreign currency gains	23,660	3,480	1,626	28,766
Other non-interest income	50,522	2,372	426	53,320
Total external income	**295,517**	**23,672**	**8,463**	**327,652**
Total assets	**2,606,676**	**226,739**	**80,014**	**2,913,429**
Capital expenditures	**29,338**	**3,214**	**391**	**32,943**

(Thousands of Georgian Lari)

6. Segment Information (continued)

Geographic information (continued)

The following table shows the distribution of the Group's external income, total assets and capital expenditure, allocated based on the location of the Group's assets, for the year ended 31 December 2008:

	Georgia 2008	*Ukraine and Cyprus 2008*	*Belarus 2008*	*Total 2008*
External income				
Net interest income	198,027	20,479	2,334	220,840
Net fee and commission income (expense)	44,751	6,022	(804)	49,969
Net foreign currency gains	43,348	2,257	1,529	47,134
Other non-interest income	43,582	871	169	44,622
Total external income	**329,708**	**29,629**	**3,228**	**362,565**
Total assets	**3,096,938**	**113,782**	**48,187**	**3,258,907**
Capital expenditures	**113,865**	**8,158**	**856**	**122,879**

7. Cash and Cash Equivalents

	2009	*2008*
Cash on hand	154,861	164,463
Current accounts with central banks, excluding obligatory reserves	23,584	25,731
Current accounts with other credit institutions	34,944	44,080
Time deposits with credit institutions up to 90 days	123,983	163,317
Cash and cash equivalents	**337,372**	**397,591**

As of 31 December 2009 GEL 127,816 (2008: GEL 222,332) was placed on current and time deposit accounts with internationally recognized OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 0.17 % interest per annum on these deposits (2008: 1.16%).

8. Amounts Due from Credit Institutions

	2009	*2008*
Obligatory reserves with central banks	62,308	57,891
Time deposits with effective maturity of more than 90 days	18,599	37,414
Inter-bank loan receivables	4,230	4,328
Amounts due from credit institutions	**85,137**	**99,633**

Obligatory reserves with central banks represent amounts deposited with the NBG ("National Bank of Georgia"), the NBU ("National Bank of Ukraine") and the NBRB (National Bank of the Republic of Belarus). Credit institutions are required to maintain an interest-earning cash deposit (obligatory reserve) with central banks, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group earned up to 2% annual interest on obligatory reserve with NBG in 2009 and 2008.

As of 31 December 2009 GEL 10,940 (2008: GEL 3,913) was placed on current accounts and inter-bank time deposits with seven (2008: three) internationally recognised OECD banks. Those amounts were pledged to the counterparty bank as security for open commitments.

As of 31 December 2009 inter-bank loan receivables include GEL 4,215 (2008: GEL 4,328) placed with an Azerbaijani bank.

(Thousands of Georgian Lari)

9. Loans to Customers

	2009	*2008*
Commercial loans	939,814	1,044,959
Residential mortgage loans	387,415	391,606
Consumer loans	332,537	496,197
Micro loans	99,981	151,313
Gold – pawn loans	62,829	46,374
Others	5,241	15,174
Loans to customers, gross	**1,827,817**	**2,145,623**
Less – Allowance for loan impairment	(166,486)	(106,601)
Loans to customers, net	**1,661,331**	**2,039,022**

Allowance for loan impairment

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

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

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Allowance for loan impairment (continued)

	Commercial loans 2008	*Consumer loans 2008*	*Residential mortgage loans 2008*	*Micro loans 2008*	*Gold-pawn loans 2008*	*Others 2008*	*Total 2008*
At 1 January 2008	**11,120**	**13,158**	**2,757**	**1,676**	–	**218**	**28,929**
Charge	53,349	50,190	7,164	5,415	–	6,694	122,812
Recoveries	3,265	5,088	1,327	1,496	–	–	11,176
Write-offs	(17,685)	(22,082)	(2,724)	(3,221)	–	–	(45,712)
Interest accrued on impaired loans	(3,067)	(3,730)	(199)	(333)	–	–	(7,329)
Currency translation difference	(1,227)	(471)	(356)	(112)	–	(1,109)	(3,275)
At 31 December 2008	**45,755**	**42,153**	**7,969**	**4,921**	**–**	**5,803**	**106,601**
Individual impairment	37,905	25,920	5,068	3,071	–	650	72,614
Collective impairment	7,850	16,233	2,901	1,850	–	5,153	33,987
	45,755	**42,153**	**7,969**	**4,921**	**–**	**5,803**	**106,601**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**290,561**	**42,338**	**35,280**	**8,505**	**–**	**857**	**377,541**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized as at 31 December 2009 comprised GEL 17,055 (GEL 10,241 in 2008).

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, inventory and trade receivables.
- For retail lending, mortgages over residential properties.

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

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Concentration of loans to customers

As of 31 December 2009 concentration of loans granted by the Group to ten largest third party borrowers comprised GEL 206,981 accounting for 11% of gross loan portfolio of the Group (2008: GEL 230,733 and 11% respectively). An allowance of GEL 9,891 (2008: GEL 10,224) was established against these loans.

As of 31 December 2009 and 2008 loans are principally issued within Georgia, and their distribution by industry sector is as follows:

	2009	*2008*
Individuals	862,365	1,079,945
Trade and services	578,623	667,557
Construction and development	150,676	158,702
Transport and communication	81,532	52,631
Mining	62,622	34,526
Agriculture	13,730	20,134
Energy	11,667	66,145
Others	66,602	65,983
Loans to customers, gross	**1,827,817**	**2,145,623**
Less – allowance for loan impairment	(166,486)	(106,601)
Loans to customers, net	**1,661,331**	**2,039,022**

Loans have been extended to the following types of customers:

	2009	*2008*
Private companies	934,494	1,029,008
Individuals	862,365	1,079,945
State-owned entities	30,958	36,670
Loans to customers, gross	**1,827,817**	**2,145,623**
Less – allowance for loan impairment	(166,486)	(106,601)
Loans to customers, net	**1,661,331**	**2,039,022**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers:

	2009			*2008*		
	Individual impairment	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***
	2009	***2009***	***2009***	***2008***	***2008***	***2008***
At 1 January	**72,614**	**33,987**	**106,601**	**9,659**	**19,270**	**28,929**
Charge (reversal) for the year	105,477	13,405	118,882	73,311	49,501	122,812
Recoveries	17,237	13,268	30,505	6,690	4,486	11,176
Write-offs	(49,587)	(31,206)	(80,793)	(12,757)	(32,955)	(45,712)
Interest accrued on impairment loans to customers	(3,801)	(3,790)	(7,591)	(1,933)	(5,396)	(7,329)
Currency translation differences	(1,046)	(72)	(1,118)	(2,356)	(919)	(3,275)
At 31 December	**140,894**	**25,592**	**166,486**	**72,614**	**33,987**	**106,601**

(Thousands of Georgian Lari)

10. Finance Lease Receivables

	31 December 2009	*31 December 2008*
Minimum lease payments receivables	27,816	50,565
Less – Unearned finance lease income	(3,776)	(6,797)
	24,040	**43,768**
Less – Allowance for impairment	(7,144)	(2,163)
Finance lease receivables, net	**16,896**	**41,605**

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

As of 31 December 2009, concentration of investments in five largest lessees comprised GEL 16,013 or 67% of total finance lease receivables (2008: GEL 32,112 or 73.4%) and finance income received from them as of 31 December 2009 comprised GEL 1,567 or 27% of total finance income from lease (2008: GEL 3,512 or 50.1%).

Future minimum lease payments to be received after 31 December 2009 and 31 December 2008 are as follows:

	31 December 2009	*31 December 2008*
Within 1 year	19,693	37,550
From 1 to 5 years	8,123	13,015
More than 5 years	–	–
Minimum lease payment receivables	**27,816**	**50,565**

Minimum lease payments to be received after 31 December 2009 and 2008 are denominated in the following currencies:

	31 December 2009	*31 December 2008*
Ukrainian Hryvnas	11,376	–
US Dollars	9,554	41,959
Euros	5,851	5,919
Belarussian Roubles	1,035	2,687
Minimum lease payment receivables	**27,816**	**50,565**

The equipment the Group leases out at 31 December 2009 and 2008 can be segregated into the following categories:

	31 December 2009		*31 December 2008*	
	Amount	*Number of projects*	*Amount*	*Number of projects*
Construction equipment	16,372	21	8,985	46
Air and land transport	7,559	116	37,650	126
Machinery & equipment	3,885	31	3,930	46
Minimum lease payment receivables	**27,816**	**168**	**50,565**	**218**

(Thousands of Georgian Lari)

10. Finance Lease Receivables (continued)

Allowance for impairment of finance lease receivables

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

	Finance lease receivables 2009	*Finance lease receivables 2008*
At 1 January	**2,163**	**816**
Charge	6,859	1,335
Recoveries	2,074	–
Amounts written-off	(3,689)	–
Currency translation difference	(263)	12
At 31 December	**7,144**	**2,163**
Individual impairment	6,916	1,600
Collective impairment	228	563
	7,144	**2,163**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**13,703**	**2,730**

11. Investment Securities

Available-for-sale securities comprise:

	2009	*2008*
Corporate shares	13,418	21,723
Ministry of Finance treasury bills	4,044	5,266
Corporate bonds	2,946	6,748
	20,408	**33,737**
Less – Allowance for impairment (Note 17)	(818)	–
Available-for-sale securities	**19,590**	**33,737**

Corporate shares as of 31 December 2009 are primarily comprised of investments in a Georgian retail chain of GEL 2,677 (2008: GEL 9,175), a meat processing company of GEL 5,394 (2008: GEL 6,842) and a chain of drug stores of GEL 4,413 (2008: nil).

Corporate bonds as of 31 December 2009 are comprised of GEL 2,946 investments in several financial institutions in Ukraine (2008: GEL 6,748).

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

	31 December 2009		*31 December 2008*	
	%	*Maturity*	*%*	*Maturity*
Corporate bonds	19.76%	1-2 years	14.41%	1-3 years
Ministry of Finance treasury bills	9.50%	1-2 years	11.95%	1-3 years

(Thousands of Georgian Lari)

11. Investment Securities (continued)

Held-to-maturity securities comprise:

	2009		*2008*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*
Certificates of deposit of central banks	105,143	105,624	14,826	15,000
Ministry of Finance treasury bills	144,053	149,124	–	–
State debt securities	–	–	8,019	8,047
Held-to-maturity securities	**249,196**	**254,748**	**22,845**	**23,047**

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

	31 December 2009		*31 December 2008*	
	%	*Maturity*	*%*	*Maturity*
Ministry of Finance treasury bills	6.33%	2010	–	–
Certificates of deposit of central banks	3.11%	2010	11.79%	2009
State debt securities	–	–	13.00%	2009

12. Investments in Associates

The following associates are accounted for under the equity method:

2009

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

2008

Associates	*Ownership / Voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC SB Iberia	49,00%	Georgia	13/12/2007	Construction	20/03/2008
JSC SB Iberia 2	49.00%	Georgia	28/03/2008	Construction	
JSC Teliani Valley	27.19%	Georgia	30/06/2000	Winery	13/02/2007
JSC One Team	25.00%	Georgia	23/04/2007	Entertainment	
JSC iCall	27.03%	Georgia	22/03/2005	Call centre	22/11/2006
JSC N Tour	30.00%	Georgia	1/11/2001	Travel Services	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	50.00%	Georgia		Food retail	29/05/2008
JSC Info Georgia XXI	50.00%	Georgia	26/04/2001	Business service	20/05/2008
JSC Caucasus Automotive Retail	30.00%	Georgia	18/04/2008	Car retail	2/05/2008
Style +, LLC	32.45%	Georgia	1/08/2005	Advertising	7/08/2008

(Thousands of Georgian Lari)

12. Investments in Associates (continued)

Movements in investments in associates were as follows:

	2009	*2008*
Investments in associates, beginning of year, gross	**16,990**	**5,208**
Purchase cost	–	13,355
Disposal	(24)	(860)
Transfers (reclassifications)	(1,483)	–
Net share of loss	(2,649)	(713)
Investments in associates, end of year, gross	**12,834**	**16,990**
Less – Allowance for impairment (Note 17)	(2,511)	(274)
Investments in associates, end of year, net	**10,323**	**16,716**

Investments in associates at 31 December 2009 include goodwill of GEL 3,120 (2008: GEL 7,354). Reclassifications of GEL 1,483 in 2009 comprise investments in SB Iberia and SB Iberia 2. Subsequent to acquisition of controlling stakes in these companies, the Group added previous investments of GEL 1,483 to total acquisition cost of these companies and this amount affected the respective price allocation, contributing to respective goodwill arising on these acquisitions.

The following table summarises certain financial information of the associates:

Aggregated assets and liabilities of associates	*2009*	*2008*
Assets	33,861	58,171
Liabilities	(18,329)	(32,023)
Net assets	**15,532**	**26,148**

Aggregated revenue and profit of associates	*2009*	*2008*
Revenue	48,672	34,663
Profit (loss)	445	(1,607)

JSC Teliani Valley, an associate company, is listed on the Georgian Stock Exchange. As of 31 December 2009 the carrying value of the investment in JSC Teliani Valley was GEL 4,946 (2008: GEL 5,042) while the fair value is GEL 5,644 (2008: GEL 7,263).

13. Investment properties

	2009	*2008*
At 1 January	**47,289**	**35,065**
Acquisition through business combinations	12,630	–
Purchases	495	12,613
Disposals	(755)	–
Net change in fair value through profit and loss	(4,087)	(389)
Transfers from property and equipment and other assets	23,937	–
At 31 December	**79,509**	**47,289**

Investment properties are stated at fair value, which has been determined based on the valuation performed by Georgian Valuation Company, an accredited independent appraiser, as at 31 December 2009. Georgian Valuation Company is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

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

	2009	*2008*
Rental income	3,026	1,211
Direct operating expenses	(114)	(76)

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

(Thousands of Georgian Lari)

14. Property and Equipment

The movements in property and equipment during 2009 were as follows:

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

The movements in property and equipment during 2008 were as follows:

	Buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2007	**135,084**	**42,285**	**21,516**	**5,765**	**4,111**	**12,973**	**221,734**
Acquisition through business combinations (Note 5)	18,162	696	1,095	75	–	219	20,247
Additions	1,174	33,398	13,215	3,416	779	57,902	109,884
Disposals	(4,677)	(1,934)	(468)	(1,491)	(1,023)	(1,976)	(11,569)
Transfers	7,815	167	480	263	4,096	(12,821)	–
Revaluation	(11,669)	–	–	–	–	–	(11,669)
Currency translation adjustment	1,141	1,991	662	(203)	503	2,253	6,347
31 December 2008	**147,030**	**76,603**	**36,500**	**7,825**	**8,466**	**58,550**	**334,974**
Accumulated impairment							
31 December 2007	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Impairment charge	158	1	84	1	–	–	244
31 December 2008	**625**	**1**	**84**	**1**	**–**	**–**	**711**
Accumulated depreciation							
31 December 2007	**62**	**7,531**	**6,602**	**1,306**	**1,110**	**–**	**16,611**
Depreciation charge	2,832	7,048	5,515	1,480	1,795	–	18,670
Currency translation difference	(68)	(116)	(88)	(63)	2	–	(333)
Disposals	(563)	(295)	(162)	(130)	(105)	–	(1,255)
Revaluation	(1,214)	–	–	–	–	–	(1,214)
31 December 2008	**1,049**	**14,168**	**11,867**	**2,593**	**2,802**	**–**	**32,479**
Net book value:							
31 December 2007	**134,555**	**34,754**	**14,914**	**4,459**	**3,001**	**12,973**	**204,656**
31 December 2008	**145,356**	**62,434**	**24,549**	**5,231**	**5,664**	**58,550**	**301,784**

(Thousands of Georgian Lari)

14. Property and Equipment (continued)

The Group engaged Georgian Valuation Company, an independent appraiser, to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Bank's buildings was 31 December 2008. If the buildings were measured using the cost model, the carrying amounts of the buildings as of 31 December 2009 and 31 December 2008 would be as follows:

	2009	*2008*
Cost	60,797	66,917
Accumulated depreciation and impairment	(10,487)	(7,353)
Net carrying amount	**50,310**	**59,564**

15. Goodwill and Other Intangible Assets

Movements in goodwill and intangible assets during 2009 were as follows:

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

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

15. Goodwill and Other Intangible Assets (continued)

Movements in goodwill and intangible assets during 2008 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total*
Cost				
31 December 2007	**110,498**	**1,688**	**7,611**	**119,797**
Acquisition through business combinations (Note 5)	23,682	843	117	24,642
Additions	–	–	12,997	12,997
Disposals	–	–	(170)	(170)
Currency translation difference	58	(32)	236	262
31 December 2008	**134,238**	**2,499**	**20,791**	**157,528**
Accumulated amortization and impairment				
31 December 2007	**426**	–	**3,382**	**3,808**
Amortization charge	–	–	1,618	1,618
Disposals	(426)	–	(12)	(438)
Currency translation difference	–	–	81	81
31 December 2008	**–**	**–**	**5,069**	**5,069**
Net book value:				
31 December 2007	**110,072**	**1,688**	**4,229**	**115,989**
31 December 2008	**134,238**	**2,499**	**15,722**	**152,459**

As of 31 December 2009 goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

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

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will not grow and the cash flows will be stable. The discount rate applied to cash flow projections is the weighted average cost of capital ("WACC") of each particular cash-generating unit.

Carrying amount of goodwill (less impairment) allocated to each of the cash-generating units follows:

			Carrying amount of goodwill	
	Effective annual growth rate in three-year financial budgets	*WACC applied for impairment*	*31 December 2009*	*31 December 2008*
JSC Belarusky Narodny Bank	93.74%	16.26%	23,394	23,394
JSC Bank of Georgia	11.00%	8.70%	22,398	22,391
JSC Insurance Company Aldagi – BCI	11.00%	17.20%	18,742	18,742
JSC Intertour	11.00%	14.08%	659	698
Planeta Forte, LLC	11.00%	17.20%	364	–
JSC My Family Clinic	11.00%	17.20%	220	220
JSC BG Bank	–	10.01%	–	68,016
JSC United Securities Registrar of Georgia	5.00%	19.85%	–	366
JSC Nova Technology (disposed)	N/A	N/A	–	411
Total			**65,777**	**134,238**

(Thousands of Georgian Lari)

15. Goodwill and Other Intangible Assets (continued)

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

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

Impairment testing of goodwill and other intangible assets with indefinite lives

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

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

	2009	*2008*
Retail banking	38,102	78,408
Insurance	18,962	18,962
Corporate banking	7,690	35,381
Brokerage and asset & wealth management	1,023	1,487
Total	**65,777**	**134,238**

Key assumptions used in value in use calculations

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

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

	Corporate Banking		*Retail Banking*	
	2009, %	*2008, %*	*2009, %*	*2008, %*
Discount rate	9.1%	7.5%	8.8%	7.5%

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

	Insurance		*Asset & wealth management and brokerage*	
	2009, %	*2008, %*	*2009, %*	*2008, %*
Discount rate	17.2%	15.8%	16.45%	12% – 14%

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

Discount rates

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

(Thousands of Georgian Lari)

16. Taxation

The corporate income tax expense comprises:

	2009	*2008*
Current income tax expense	1,872	6,762
Deferred income tax benefit	(8,870)	(7,740)
Income tax benefit	**(6,998)**	**(978)**
Deferred income tax (benefit) expense recognized in other comprehensive income	**(704)**	**3,189**

Deferred tax related to items charged or credited to other comprehensive income during the year is as follows:

	2009	*2008*
Net (losses) gains on investment securities available for sale	(620)	1,530
Revaluation of buildings	(7)	1,659
Other	(77)	–
Income tax (charge) benefit to other comprehensive income	**(704)**	**3,189**

The income tax rate applicable to the majority of the Group's income is the income tax rate applicable to subsidiaries income which ranges from 15% to 26% (2008: from 15% to 26%). The tax rate for interest income on state securities changed from 10% to 7.5%, effective 1 January 2009 and further from 7.5% to 0%, effective 9 August 2009. 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 of 31 December 2009 and 2008 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2009	*2008*
Loss before income tax benefit	**(105,906)**	**(804)**
Statutory tax rate	15%	15%
Theoretical income tax benefit at statutory tax rate	**(15,886)**	**(121)**
Tax at the domestic rates applicable to profits in the respective country	(3,614)	(837)
Non-deductible share-based compensation expenses	717	1,240
Other operating income	(408)	207
State securities at lower tax rates	(677)	(1,020)
Tax effect of inter-company transactions	–	(783)
Non-deductible expenses:		
– impairment of intangible assets	10,308	–
– other impairment losses	2,460	171
– other	102	165
Income tax benefit	**(6,998)**	**(978)**

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

16. Taxation (continued)

As of 31 December tax assets and liabilities consist of the following:

	2009	*2008*
Current income tax assets	7,997	8,095
Deferred income tax assets	15,487	4,691
Income tax assets	**23,484**	**12,786**
Current income tax liabilities	574	779
Deferred income tax liabilities	24,661	23,615
Income tax liabilities	**25,235**	**24,394**

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

		Origination and reversal of temporary differences				***Origination and reversal of temporary differences***			
	2007	***In the income statement***	***In other comprehensive income***	***Effect of business combi-nation***	***2008***	***In the income statement***	***In other comprehensive income***	***Effect of business combi-nation***	***2009***
Tax effect of deductible temporary differences:									
Amounts due to credit institutions	35	(35)	–	–	–	–	–	–	–
Investment securities: available-for-sale	–	296	1,530	–	1,826	(295)	(620)	–	911
Loans to customers	80	390	–	–	470	9,659	–	–	10,129
Investment properties	–	–	–	–	–	–	–	1,604	1,604
Securities issued	55	(55)	–	–	–	–	–	–	–
Reinsurance assets	124	119	–	–	243	129	–	–	372
Reinsurance premiums receivables	–	2,073	–	–	2,073	(376)	–	–	1,697
Allowances for impairment and provisions for other losses	225	240	–	–	465	732	–	–	1,197
Tax losses carried forward	1,313	16,689	–	–	18,002	1,516	(26)	–	19,492
Finance lease receivables	7	277	–	–	284	35	–	–	319
Intangible assets	181	58	–	–	239	25	–	–	264
Property and equipment	2	(175)	1,659	297	1,783	149	289	–	2,221
Other assets	115	348	–	–	463	359	–	–	822
Other liabilities	302	433	–	–	735	1,190	–	–	1,925
Gross deferred tax assets	**2,439**	**20,658**	**3,189**	**297**	**26,583**	**13,123**	**(357)**	**1,604**	**40,953**
Unrecognized deferred tax assets	(207)	207	–	–	–	–	(131)	–	(131)
Deferred tax assets	**2,232**	**20,865**	**3,189**	**297**	**26,583**	**13,123**	**(488)**	**1,604**	**40,822**
Tax effect of taxable temporary differences:									
Amounts due to credit institutions	1,710	341	–	–	2,051	(317)	–	–	1,734
Amounts due to customers	625	(117)	–	–	508	–	–	–	508
Securities available-for-sale	182	–	–	–	182	–	–	–	182
Loans to customers	4,491	2,612	–	–	7,103	13,776	–	–	20,879
Reinsurance assets	27	–	–	–	27	–	–	–	27
Insurance premium receivables	6	(6)	–	–	–	–	–	–	–
Allowances for impairment and provisions for other losses	38	1,185	–	–	1,223	(1,223)	–	–	–
Other insurance liabilities & pension fund obligations	–	–	–	–	–	–	–	–	–
Property and equipment	20,156	8,324	–	–	28,480	(6,194)	165	–	22,451
Investment properties	3,203	(342)	–	–	2,861	(2,313)	–	–	548
Intangible assets	1,008	1,289	–	–	2,297	87	28	–	2,412
Other assets	936	(595)	–	–	341	399	23	20	783
Other liabilities	–	434	–	–	434	38	–	–	472
Deferred tax liabilities	**32,382**	**13,125**	**–**	**–**	**45,507**	**4,253**	**216**	**20**	**49,996**
Net deferred tax assets (liabilities)	**(30,150)**	**7,740**	**3,189**	**297**	**(18,924)**	**8,870**	**(704)**	**1,584**	**(9,174)**

(Thousands of Georgian Lari)

17. Other Impairment Allowance and Provisions

The movements in other impairment allowances and provisions were as follows:

	Impairment allowance for investments in associates	*Impairment allowance for other assets*	*Impairment allowance for available-for-sale investment securities*	*Provision for guarantees and commitments*	*Total*
31 December 2007	**–**	**6**	**–**	**1,003**	**1,009**
Charge / (reversal)	274	580	–	3,697	4,551
Write-offs	–	(57)	–	(437)	(494)
Recoveries	–	20	–	–	20
31 December 2008	**274**	**549**	–	**4,263**	**5,086**
Charge / (reversal)	2,237	5,513	818	(2,137)	6,431
Write-offs	–	(342)	–	–	(342)
Recoveries	–	–	–	–	–
31 December 2009	**2,511**	**5,720**	**818**	**2,126**	**11,175**

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

18. Other Assets and Other Liabilities

Other assets comprise:

	2009	*2008*
Insurance premiums receivable	20,619	20,497
Reinsurance assets	4,920	21,493
Receivable from documentary operations	4,338	–
Accounts receivable	4,026	7,243
Settlements on operations with securities	3,027	39
Receivables from money transfers	2,508	5,208
Assets purchased for finance lease purposes	2,316	–
Trading securities owned	2,268	92
Receivables from sale of assets	1,420	2,317
Operating taxes receivables	1,296	1,363
Inventory	1,212	1,966
Derivative financial assets	1,129	255
Foreclosed assets	946	3,464
Operating lease receivables	426	448
Prepayments for purchase of property and equipment	344	245
Receivables from factoring operations	–	4,539
Assets held-for-sale	–	4,469
Other	3,205	2,032
	54,000	**75,670**
Less – Allowance for impairment of other assets (Note 17)	(5,720)	(549)
Other assets	**48,280**	**75,121**

Foreclosed assets represent assets repossessed from the borrowers of the Bank. These assets are not used for their intended purposes and are being held for short-term purposes with intent of sale.

(Thousands of Georgian Lari)

18. Other Assets and Other Liabilities (continued)

Other liabilities comprise:

	2009	*2008*
Insurance contracts liabilities	30,304	44,340
Accruals for employee compensation	21,860	14,165
Derivative financial liabilities	7,460	1,323
Accounts payable	6,269	12,803
Other insurance liabilities	6,152	9,424
Creditors	4,226	5,858
Pension benefit obligations	3,856	1,642
Other taxes payable	2,862	4,783
Debt securities issued	660	5
Dividends payable	314	314
Amounts payable for share acquisitions	254	–
Amounts payable for purchase of intangible assets	78	5,959
Accruals and deferred income	35	–
Other	2,236	939
Other liabilities	**86,566**	**101,555**

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

	2009			*2008*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Interest rate contracts						
Forwards and Swaps – foreign	197,003	–	6,447	–	–	–
Foreign exchange contracts						
Forwards and Swaps – domestic	24,410	–	288	2,501	–	252
Options – foreign	1,096	82	–	–	–	–
Equity / Commodity contracts						
Put options – foreign	–	–	–	700	177	–
Call options – foreign	8,429	1,047	–	1,667	78	–
Embedded derivatives from investment deposits	–	–	725	–	–	1,071
Total derivative assets / liabilities	**230,938**	**1,129**	**7,460**	**4,868**	**255**	**1,323**

19. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2009	*2008*
Borrowings from international credit institutions	913,579	1,108,014
Time deposits and inter-bank loans	12,761	91,389
Correspondent accounts	2,275	17,319
Amounts due to credit institutions	**928,615**	**1,216,722**

During 2009 the Group received short-term funds from Georgian banks in different currencies. As of 31 December 2009 the Group had an equivalent of GEL 1,566 (2008: GEL 32,795) in foreign currencies received as deposits from Georgian banks. In 2009 the Group paid up to 0.2% interest on these deposits (2008: 4.85%).

19. Amounts Due to Credit Institutions (continued)

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

As of 31 December 2009

Credit institution	*Grant date*	*Contractual maturity*	*Currency*	*Interest rate per annum*	*Facility amount in original currency*	*Outstanding Balance as of 31 December 2009 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	9.00%	200,000	303,164
International Financial Corporation	13-Jan-09	15-Jul-13	USD	LIBOR +5.5%	50,000	85,979
European Bank for Reconstructions and Development	13-Jan-09	15-Jan-14	USD	LIBOR +5.5%	50,000	85,920
Merrill Lynch International **	17-Aug-07	17-Aug-12	USD	LIBOR+5.995	35,000	59,472
Overseas Private Investment Corporation	23-Dec-08	19-Dec-18	USD	5.75%	29,000	48,602
Netherland Development Finance Company **	18-Jul-08	15-Oct-18	USD	LIBOR + 7.25%	30,000	49,570
European Bank for Reconstructions and Development**	13-Jan-09	15-Jan-19	USD	LIBOR + 10%	23,956	42,365
International Financial Corporatation **	13-Jan-09	15-Jan-19	USD	LIBOR + 10%	23,956	42,344
European Bank for Reconstructions and Development **	13-Jan-09	15-Jan-19	USD	LIBOR +8%	26,044	40,700
International Financial Corporation **	13-Jan-09	15-Jan-19	USD	LIBOR +8%	26,044	40,694
Semper Augustos B.V. **	31-Oct-07	25-Oct-17	USD	11.65%	15,000	25,803
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	LIBOR+3.3%	12,500	17,029
Overseas Private Investment Corporation **	23-Dec-08	19-Dec-18	USD	7.75%	10,000	16,844
Citibank International PLC	17-Aug-07	20-Feb-10	USD	LIBOR+2.75%	8,333	14,157
Citibank International PLC	17-Aug-07	20-Aug-10	USD	LIBOR+2.75%	8,333	14,000
World Business Capital	17-Feb-06	1-Oct-16	USD	LIBOR+2.75%	10,000	9,705
World Business Capital	29-May-07	25-Mar-17	USD	LIBOR+2.75%	4,151	6,998
Commerzbank AG	30-Dec-05	30-Dec-10	USD	LIBOR+1.3%	3,837	6,172
Balances less than 5,000 KGEL						16,822
Total						**926,340**

As of 31 December 2008

Credit institution	*Grant date*	*Contractual maturity*	*Currency*	*Interest rate per annum*	*Facility amount in original currency*	*Outstanding Balance as of 31 December 2008 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	9%	200,000	340,864
Rubrika Finance Company Netherlands B.V.	6-Jun-08	6-Jun-10	USD	LIBOR+9%	140,000	230,740
Merrill Lynch International	21-Dec-07	21-Jan-09	USD	LIBOR+7.65%	65,000	111,806
Citibank International PLC	17-Aug-07	17-Feb-09	USD	LIBOR+2.2%	43,500	73,780
Merrill Lynch International **	17-Aug-07	17-Aug-12	USD	LIBOR+5.995%	35,000	59,488
National Bank of Georgia	30-Sep-08	30-Sep-09	GEL	13%	58,900	58,900
Netherland Development Finance Company **	30-Jun-08	15-Oct-18	USD	LIBOR+7.25%	30,000	50,351
Overseas Private Investment Corporation	19-Dec-08	19-Dec-18	USD	5.75%	29,000	47,605
Citibank International PLC	20-Aug-07	20-Aug-10	USD	LIBOR+2.75	25,000	41,875
Semper Augustos B.V. **	31-Oct-07	25-Oct-17	USD	11.65%	15,000	25,515
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	LIBOR+3.3%	12,500	20,387
Overseas Private Investment Corporation **	19-Dec-08	19-Dec-18	USD	7.75%	10,000	16,379
JSC TBC Bank	31-Dec-08	5-Jan-09	EUR	5%	5,000	11,824
World Business Capital	17-Feb-06	1-Oct-16	USD	LIBOR+2.75%	10,000	11,242
Hillside Apex Fund Ltd **	14-Aug-06	14-Aug-16	USD	LIBOR+6.20%	5,000	8,630
JSC TBC Bank	26-Dec-08	5-Jan-09	USD	4%	5,000	8,340
World Business Capital	29-Mar-07	25-Mar-17	USD	LIBOR+2.75%	5,226	7,633
JSC HSBC Bank Georgia	29-Jul-08	29-Jan-09	USD	9%	4,000	6,926
Commerzbank AG	16-Dec-05	30-Dec-10	USD	LIBOR+1.3%	5,000	5,408
JSC TBC Bank	29-Dec-08	6-Jan-09	GEL	4.5%	5,000	5,001
Balances less than GEL 5,000	various	various	various	various	various	56,709
Total						**1,199,403**

*** - includes accrued interest**
**** - total subordinated loans comprised GEL 317,792 as at 31 December 2009 (2008: GEL 160,363)**

(Thousands of Georgian Lari)

19. Amounts Due to Credit Institutions (continued)

Agreements for significant borrowings contain certain covenants requiring the Group for different limits for capital adequacy, liquidity, currency position, credit exposures, leverage and others. At 31 December 2009 and 2008, the Group complied with all the covenants of the loans received from credit institutions.

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

20. Amounts Due to Customers

The amounts due to customers include the following:

	2009	*2008*
Current accounts	559,987	612,502
Time deposits	712,483	580,622
Amounts due to customers	**1,272,470**	**1,193,124**
Held as security against letters of credit and guarantees	**56,758**	**70,441**

At year-end, amounts due to customers of GEL 217,264 (17%) were due to the 10 largest customers (2008: GEL 323,662 (27%)).

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

	2009	*2008*
Individuals	637,789	495,747
Private enterprises	578,849	627,049
State and budget organizations	55,832	70,328
Amounts due to customers	**1,272,470**	**1,193,124**

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

	2009	*2008*
Individuals	637,789	495,747
Trade and services	273,190	296,110
Energy	116,810	134,275
Construction and development	79,082	40,146
State and budget organizations	55,832	70,328
Transport and communication	47,166	70,806
Mining and processing	27,638	16,364
Agriculture	13,588	8,426
Other	21,375	60,922
Amounts due to customers	**1,272,470**	**1,193,124**

21. Equity

Share capital

As of 31 December 2009, authorized share capital comprised 43,308,125 common shares, of which 31,306,071 were issued and fully paid (2008: 39,835,619 common shares, of which 31,253,283 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as of 31 December 2009 are described below:

	Number of shares Ordinary	***Amount of shares Ordinary***
31 December 2007	**27,154,918**	**27,155**
Increase in share capital	4,089,000	4,089
Increase in share capital arising from share-based payments (Note 26)	9,365	9
31 December 2008	**31,253,283**	**31,253**
Increase in share capital arising from share-based payments (Note 26)	52,788	53
31 December 2009	**31,306,071**	**31,306**

Share capital of the Group was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. 2009 net loss attributable to ordinary shareholders of the Bank comprise GEL 91,370 (2008: net income of GEL 3,897). At 31 December 2009 weighted average number of ordinary shares outstanding during the year was 30,494,397 (2008: 30,160,451). At 31 December 2009 the diluted number of ordinary shares was 30,494,397 (2008: 30,160,451). Both, the basic and diluted loss per share amounted to GEL 2.996 (2008: earnings per share amounted to GEL 0.129). The 3,474,614 potential shares underlying the convertible debt instruments held by the Group as at 31 December 2009 (Note 19) were not treated as dilutive, because their conversion would neither decrease earnings per share nor increase loss per share from continuing operations, as prescribed in IAS 33 – "Earnings per share".

Treasury shares

Treasury shares of GEL 668 as of 31 December 2009 comprise the Bank's shares owned by its subsidiaries (2008: GEL 890). 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.

Treasury shares amounting to GEL 1,009 as of 31 December 2009 (2008: GEL 1,128) are kept by the Bank's custodian – Abacus Corporate Trustee Limited.

During the year ended 31 December 2009, 52,788 ordinary shares of GEL 53 par value and additional paid-in capital of GEL 430 have been granted as compensation to top management (2008: 19,933 ordinary shares of GEL 20 at par value and additional paid-in capital of GEL 470).

Dividends

No dividends were declared nor paid during 2009 and 2008.

Nature and purpose of other reserves

Revaluation reserve for property and equipment and investment properties
The revaluation reserve for property and equipment and investment properties is used to record increases in the fair value of buildings and investment properties 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.

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 2009 and 2008 are presented in the statement of other comprehensive income.

(Thousands of Georgian Lari)

22. Commitments and Contingencies

Legal

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

Financial commitments and contingencies

As of 31 December 2009 and 2008 the Group's financial commitments and contingencies comprised the following:

	2009	*2008*
Credit-related commitments		
Undrawn loan facilities	76,999	90,023
Letters of credit	30,038	32,547
Guarantees	240,613	304,906
	347,650	**427,476**
Operating lease commitments		
Not later than 1 year	6,281	5,874
Later than 1 year but not later than 5 years	13,396	12,832
Later than 5 years	6,497	5,993
	26,174	**24,699**
Capital expenditure commitments	**9,309**	**19,851**
Less – Provisions (Note 17)	(2,126)	(4,263)
Less – Cash held as security against letters of credit and guarantees (Note 20)	(56,758)	(70,441)
Financial commitments and contingencies, net	**324,249**	**397,322**

Financial commitments and contingencies (continued)

As of 31 December 2009 the capital expenditures represented the commitment for purchase of property and capital repairs of GEL 1,512 and software and other intangible assets of GEL 7,797. As of 31 December 2008 the capital expenditures represented the commitment for purchase of property GEL 2,132, equipment of GEL 4,721 and software and other intangible assets of GEL 12,998.

23. Net Fee and Commission Income

	2009	*2008*
Settlements operations	33,907	33,659
Guarantees and letters of credit	10,764	8,625
Cash operations	6,145	6,947
Brokerage service fees	1,891	2,626
Currency conversion operations	1,024	1,766
Advisory	578	2,032
Other	10,290	7,848
Fee and commission income	**64,599**	**63,503**
Settlements operations	(4,299)	(3,974)
Guarantees and letters of credit	(2,106)	(2,038)
Cash operations	(1,619)	(564)
Insurance brokerage service fees	(534)	(5,965)
Currency conversion operations	(28)	(430)
Other	(988)	(563)
Fee and commission expense	**(9,574)**	**(13,534)**
Net fee and commission income	**55,025**	**49,969**

(Thousands of Georgian Lari)

24. Net Insurance Revenue

Net insurance premiums earned, net insurance claims incurred and respective net insurance revenue for the years ended December 31, 2009 and 2008 comprised:

	2009	*2008*
Life insurance contracts premium written	2,865	3,456
General insurance contracts premium written, direct	56,694	53,201
Total premiums written	**59,559**	**56,657**
Gross change in life provision	(377)	86
Gross change in unearned premium provision	1,690	(6,311)
Total gross premiums earned on insurance contracts	**60,872**	**50,432**
Reinsurers' share of life insurance contracts premium written	(1,086)	(981)
Reinsurers' share of general insurance contracts premium written	(9,502)	(15,271)
Reinsurers' share of change in life provision	254	(4)
Reinsurers' share of change in general insurance contracts unearned premium provision	(5,061)	1,735
Total reinsurers' share of gross earned premiums on insurance contracts	**(15,395)**	**(14,521)**
Net insurance premiums earned	**45,477**	**35,911**
Life insurance claims paid	(830)	(455)
General insurance claims paid, direct	(43,137)	(30,175)
Total insurance claims paid	**(43,967)**	**(30,630)**
Reinsurers' share of life claims paid	523	351
Reinsurers' share of general claims paid	12,356	5,443
Gross change in total insurance contracts liabilities	12,563	(6,053)
Reinsurers' share of change in total insurance contracts liabilities	(11,577)	3,994
Net insurance claims incurred	**(30,102)**	**(26,895)**
Net insurance revenue	**15,375**	**9,016**

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

	2009	*2008*
Salaries and bonuses	(96,745)	(104,039)
Social security costs	(3,760)	(4,728)
Salaries and other employee benefits	**(100,505)**	**(108,767)**
Occupancy and rent	(10,431)	(12,811)
Marketing and advertising	(9,847)	(12,251)
Legal and other professional services	(7,010)	(6,391)
Communication	(5,482)	(6,117)
Repairs and maintenance	(5,313)	(5,441)
Operating taxes	(4,960)	(3,496)
Security	(4,647)	(4,951)
Office supplies	(2,484)	(2,813)
Travel expenses	(2,019)	(2,948)
Corporate hospitality and entertainment	(1,307)	(1,393)
Banking services	(623)	(2,293)
Penalties	(510)	(745)
Insurance	(399)	(2,886)
Personnel training and recruitment	(177)	(545)
Other	(2,130)	(3,568)
General and administrative expenses	**(57,339)**	**(68,649)**

(Thousands of Georgian Lari)

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

Salaries and bonuses include GEL 10,530 and GEL 7,820 of the Executives' Equity Compensation Plan costs in 2009 and 2008, respectively, associated with the existing share-based compensation scheme approved in the Group (Note 26).

26. Share-based Payments

Executives' Equity Compensation Plan

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

In May 2008 the Bank's Supervisory Board resolved to recommend to the Trustee to award 172,000 Bank's ordinary shares in the form of restricted GDRs to the Group's 22 executives pursuant to the EECP in respect of the year ended 31 December 2007. The awards are subject to three year vesting, with a continuous employment being the only vesting condition. The Group considers 21 February 2008 as the grant date for 54,000 of the Bank of Georgia shares in the form of restricted GDRs and 6 May 2008 grant date for the remaining 118,000 of the Bank's ordinary shares in the form of restricted GDRs. The Bank estimates that the fair value of the shares on 21 February 2008 was Georgian Lari 39.72 per share and on 6 May 2008 – Georgian Lari 33.68 per share.

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

One-off Award

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

Top Grant, Special Grant and Annual Grants to top executives

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

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

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

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

(Thousands of Georgian Lari)

26. Share-based Payments (continued)

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

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

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

Summary

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

The weighted average fair value of share-based awards at the measurement date comprised Georgian Lari 9.46 per share in 2009 (2008: Georgian Lari 33.4).

The Group's total share-based payment expenses for 2009 comprised GEL 10,530 (2008: 7,820).

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

Ordinary shares	***2009***	***2008***
Number of shares awarded	128,908	29,298
– *Among them, to supervisory board members*	*55,158*	*9,365*
Number of shares vested	52,788	16,010
Weighted average value at grant date, per share (GEL in full amount)	9.04	41.44
Value at grant date, total (GEL)	1,165	**1,214**
Expense recognized during the year (GEL)	**(1,390)**	**(1,017)**

GDRs	***2009***	***2008***
Number of GDRs awarded	1,130,412	258,139
– *Among them, to top management**	*463,912*	*198,139*
Number of GDRs vested	153,000	282,606
Weighted average value at grant date, per share (GEL in full amount)	9.51	32.51
Value at grant date, total (GEL)	10,747	**8,391**
Expense recognized during the year (GEL)	**(9,140)**	**(6,803)**

All instruments	***2009***	***2008***
Total number of equity instruments awarded	1,259,320	287,437
– *Among them, to top management* and supervisory board members*	*519,070*	*207,504*
Total number of equity instruments vested	205,788	298,616
Weighted average value at grant date, per share (GEL in full amount)	9.46	33.42
Value at grant date, total (GEL)	11,912	**9,605**
Total expense recognized during the year (GEL)	**(10,530)**	**(7,820)**

*** The Chairman and the Chief Executive Officer**

(Thousands of Georgian Lari)

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 Bank is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

Risk management structure

The Supervisory Board is ultimately responsible for identifying and controlling risks.

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group.

Audit Committee

The Audit Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. It is an independent body and is directly monitored by the Supervisory Board.

Bank Treasury

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

Internal audit

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

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Management Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

27. Risk Management (continued)

Introduction (continued)

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

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

Risk mitigation

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

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

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the 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. Identified concentrations of credit 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 and industry concentrations, and by monitoring exposures in relation to such limits.

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

Derivative financial instruments

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

Credit-related commitments risks

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

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

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

	Notes	*Gross maximum exposure 2009*	*Gross maximum exposure 2008*
Cash and cash equivalents (excluding cash on hand)	7	182,511	233,128
Amounts due from credit institutions	8	85,137	99,633
Loans to customers	9	1,661,331	2,039,022
Finance lease receivables	10	16,896	41,605
Investment securities:			
– Available-for-sale	11	19,590	33,737
– Held-to-maturity	11	249,196	22,845
		2,214,661	**2,469,970**
Financial commitments and contingencies	22	288,766	352,772
Total credit risk exposure		**2,503,427**	**2,822,742**

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

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

Credit quality per class of financial assets

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

		Neither past due nor impaired				
	Notes	*High grade 2009*	*Standard grade 2009*	*Sub-standard grade 2009*	*Past due or individually impaired 2009*	*Total 2009*
Amounts due from credit institutions	8	84,220	917	–	–	85,137
Loans to customers:	9					
Corporate lending		447,481	122,983	94,215	275,135	939,814
Consumer lending		227,765	26,748	1,915	76,109	332,537
Residential mortgages		267,593	26,133	9,772	83,917	387,415
Micro-loans		76,003	9,506	6,884	7,588	99,981
Gold Pawn Loans		62,829	–	–	–	62,829
Other		–	3,221	352	1,668	5,241
		1,081,671	**188,591**	**113,138**	**444,417**	**1,827,817**
Finance lease receivables	10	7,913	11,441	115	4571	24,040
Investment securities:						
Available-for-sale	11	6,325	13,265	–	818	20,408
Held-to-maturity	11	249,196	–	–	–	249,196
		255,521	**13,265**	**–**	**818**	**269,604**
Total		**1,429,325**	**214,214**	**113,253**	**449,806**	**2,206,598**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

	Notes	Neither past due nor impaired				
		High grade 2008	*Standard grade 2008*	*Sub-standard grade 2008*	*Past due or individually impaired 2008*	*Total 2008*
Amounts due from credit institutions	8	99,633	–	–	–	99,633
Loans to customers:	9					
Corporate lending		639,988	112,558	23,428	268,985	1,044,959
Consumer lending		381,299	42,126	11,576	61,196	496,197
Residential mortgages		337,445	13,477	1,868	38,816	391,606
Micro-loans		129,666	4,894	5,182	11,571	151,313
Gold Pawn Loans		46,374	–	–	–	46,374
Other		713	2,514	9,414	2,533	15,174
		1,535,485	**175,569**	**51,468**	**383,101**	**2,145,623**
Finance lease receivables	10	12,201	2,232	204	29,131	43,768
Investment securities:						
Available-for-sale	11	33,737	–	–	–	33,737
Held-to-maturity	11	22,845	–	–	–	22,845
		56,582	**–**	**–**	**–**	**56,582**
Total		**1,703,901**	**177,801**	**51,672**	**412,232**	**2,345,606**

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

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

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

A financial asset that has neither been in past due more than 30 days nor individually impaired is assessed as a financial asset with High Grade;

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

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

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

	Less than 30 days 2008	*31 to 60 days 2008*	*61 to 90 days 2008*	*More than 90 days 2008*	*Total 2008*
Loans to customers:					
Corporate lending	12,107	4,937	6,990	15,118	39,152
Micro-loans	2,751	270	67	196	3,284
Consumer lending	21,375	764	336	2,469	24,944
Residential mortgages	6,887	6	–	86	6,979
Other	256	712	2,160	3,128	6,256
Finance lease receivables	–	46	–	24,380	24,426
Total	**43,376**	**6,735**	**9,553**	**45,377**	**105,041**

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

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.

	2009	*2008*
Loans to customers:		
Commercial lending	473,845	384,404
Micro loans	7,540	5,952
Consumer lending	26,624	19,384
Residential mortgages	38,137	6,193
Other	11	8,194
Financial lease receivables	2,349	3,173
Total	**548,506**	**427,300**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 150 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.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. 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, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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

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

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

	2009				*2008*			
	Georgia	***OECD***	***CIS and other foreign countries***	***Total***	***Georgia***	***OECD***	***CIS and other foreign countries***	***Total***
Assets:								
Cash and cash equivalents	133,888	127,816	75,668	337,372	153,236	208,997	35,358	397,591
Amounts due from credit institutions	59,964	12,664	12,509	85,137	64,081	3,414	32,138	99,633
Loans to customers	1,520,174	–	141,157	1,661,331	2,008,652	–	30,370	2,039,022
Finance lease receivables	8,927	–	7,969	16,896	37,405	–	4,200	41,605
Investment securities:								
– available-for-sale	13,256	157	6,177	19,590	33,420	201	116	33,737
– held-to-maturity	249,196	–	–	249,196	22,845	–	–	22,845
All other assets	455,769	8,056	80,082	543,907	586,214	1,210	37,050	624,474
	2,441,174	**148,693**	**323,562**	**2,913,429**	**2,905,853**	**213,822**	**139,232**	**3,258,907**
Liabilities:								
Amounts due to customers	1,024,771	10,375	237,324	1,272,470	1,152,244	2,477	38,403	1,193,124
Amounts due to credit institutions	20,102	899,651	8,862	928,615	129,091	1,080,179	7,452	1,216,722
All other liabilities	85,588	9,618	18,721	113,927	118,978	7,216	4,018	130,212
	1,130,461	**919,644**	**264,907**	**2,315,012**	**1,400,313**	**1,089,872**	**49,873**	**2,540,058**
Net balance sheet position	**1,310,713**	**(770,951)**	**58,655**	**598,417**	**1,505,540**	**(876,050)**	**89,359**	**718,849**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Liquidity risk and funding management

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

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

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

	2009	*2008, %*
Average liquidity ratio for the year	36.5%	31.4%
Maximum Liquidity ratio	45.7%	48.6%
Minimum Liquidity ratio	21.9%	20.8%

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

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

Liabilities – comprise sum of total liabilities and off-balance sheet commitments not including subordinated loans, those commitments that are to be exercised or settled later than six month from reporting date, financial guarantees and letters of credit fully collateralized by cash covers in the bank, commitments due to dealing operations with foreign currencies. Maximum and minimum rates of liquidity ratio are taken from historical data of appropriate reporting years.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 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 2009	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	76,468	86,724	726,243	511,713	1,401,148
Amounts due to customers	899,697	332,714	83,097	7,624	1,323,132
Debt securities issued and other liabilities	18,079	23,581	7,468	3,856	52,984
Total undiscounted financial liabilities	**994,244**	**443,019**	**816,808**	**523,193**	**2,777,264**

Financial liabilities As at 31 December 2008	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	291,471	131,625	922,928	259,148	1,605,172
Amounts due to customers	869,050	266,412	74,947	4,712	1,215,121
Debt securities issued and other liabilities	1,373	90	5	–	1,468
Total undiscounted financial liabilities	**1,161,894**	**398,127**	**997,880**	**263,860**	**2,821,761**

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*
2009	98,735	108,050	149,063	27,285	383,133
2008	187,311	94,245	166,843	23,627	472,026

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

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

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Interest rate risk

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2009. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2009 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve. During 2009 and 2008 sensitivity analysis did not reveal significant potential effect on the Group Equity.

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

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

(Thousands of Georgian Lari)

27. Risk Management (continued)

Market risk (continued)

Currency	***Increase in basis points 2008***	***Sensitivity of net interest income 2008***	***Sensitivity of other comprehensive income 2008***
UAH	0.75%	–	72
EUR	1.50%	79	–
USD	0.55%	3,434	–

Currency	***Decrease in basis points 2008***	***Sensitivity of net interest income 2008***	***Sensitivity of other comprehensive income 2008***
UAH	-1.25%	–	(121)
EUR	-1.50%	(79)	–
USD	-0.55%	(3,434)	–

Currency risk

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2009 on its trading and non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During 2009 and 2008 sensitivity analysis did not reveal significant potential effect on Group Equity.

Currency	***Change in currency rate in % 2009***	***Effect on profit before tax 2009***	***Effect on other comprehensive income 2009***	***Change in currency rate in % 2008***	***Effect on profit before tax 2008***	***Effect on other comprehensive income 2008***
EUR	12.7%	(3,792)	–	14.9%	(832)	–
GBP	16.1%	63	–	24.9%	17	–
RUR	0.3%	(1)	–	0.3%	(6)	–
UAH	0.3%	–	228	2.8%	8	–
USD	1.3%	(669)	–	9.2%	(1,216)	–

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 or later than expected, such as fixed rate mortgages when interest rates fall.

The Group uses regression models to project the impact of varying levels of prepayment on its net interest income. The model makes a distinction between the different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties. The model is back tested against actual outcomes.

The effect on profit for one year and on equity, is as follows:

	Effect on net interest income	***Effect on other comprehensive income 2009***
2009	(14,557)	–
2008	(34,546)	–

(Thousands of Georgian Lari)

27. Risk Management (continued)

Operational risk

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

Operating environment

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

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

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

(Thousands of Georgian Lari)

28. Fair Values of Financial Instruments (Continued)

Financial instruments recorded at fair value (continued)

	Level 1	*Level 2*	*Level 3*	*Total 2008*
Financial assets				
Investment securities – available-for-sale	17,644	16,093	–	33,737
Other assets – trading securities owned	92	–	–	92
	17,736	**16,093**	–	**33,829**
Financial liabilities				
Other liabilities – derivative financial liabilities	1,323	–	–	1,323
	1,323	**–**	**–**	**1,323**

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

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

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

Movements in level 3 financial instruments measured at fair value
The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2009	*Transfer from other assets*	*At 31 December 2009*
Financial assets			
Investment securities – available-for-sale	–	4,264	4,264
Total level 3 financial assets	–	**4,264**	**4,264**
Total net level 3 financial assets / (liabilities)	**–**	**4,264**	**4,264**

No financial instruments were transferred during 2009 from level 1 and level 2 to level 3 of the fair value hierarchy. Gains or losses on level 3 financial instruments during 2009 comprised nil.

No financial instruments were transferred during 2009 between level 1 and level 2 of the fair value hierarchy.

(Thousands of Georgian Lari)

28. Fair Values of Financial Instruments (Continued)

Financial instruments recorded at fair value (continued)

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:

	31 December 2009	
	Carrying amount	Effect of reasonably possible alternative assumptions
Financial assets		
Investment securities – available-for-sale	4,264	+/- 642

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

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

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 2009	Fair value 2009	Unrecognised loss 2009	Carrying value 2008	Fair value 2008	Unrecognised loss 2008
Financial assets						
Cash and cash equivalents	337,372	337,372	–	397,591	397,591	–
Amounts due from credit institutions	85,137	85,137	–	99,633	99,633	–
Loans to customers	1,661,331	1,621,779	(39,552)	2,039,022	1,991,449	(47,573)
Finance lease receivables	16,896	16,896	–	41,605	41,605	–
Investment securities:						
– held-to-maturity	249,196	249,196	–	22,845	22,845	–
Financial liabilities						
Amounts due to customers	1,272,470	1,271,298	1,172	1,193,124	1,201,746	(8,622)
Amounts due to credit institutions	928,615	928,615	–	1,216,722	1,216,722	–
Total unrecognised change in unrealised fair value			**(38,380)**			**(56,195)**

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.

	2009			2008		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Financial assets						
Cash and cash equivalents	337,372	–	337,372	397,591	–	397,591
Amounts due from credit institutions	80,638	4,499	85,137	87,205	12,428	99,633
Loans to customers	655,906	1,005,425	1,661,331	897,167	1,141,855	2,039,022
Finance lease receivables	12,466	4,430	16,896	33,375	8,230	41,605
Investment securities:						
– available–for–sale	19,590	–	19,590	33,737	–	33,737
– held–to–maturity	249,196	–	249,196	22,845	–	22,845
Total	**1,355,168**	**1,014,354**	**2,369,522**	**1,471,920**	**1,162,513**	**2,634,433**
Financial liabilities						
Amounts due to customers	1,197,697	74,773	1,272,470	1,124,598	68,526	1,193,124
Amounts due to credit institutions	37,866	890,749	928,615	402,094	814,628	1,216,722
Total	**1,235,563**	**965,522**	**2,201,085**	**1,526,692**	**883,154**	**2,409,846**
Net	**119,605**	**48,832**	**168,437**	**(54,772)**	**279,359**	**224,587**

The Group's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. In the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the undiscounted financial liability analysis gap does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

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

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

As of 31 December 2009 deposits amounted to GEL 1,272,470 (2008: GEL 1,193,124) and represented 55% (2008: 47%) of Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As of 31 December 2009 amounts owed to other credit institutions amounted to GEL 928,615 (2008: GEL 1,216,722) and represented 40% (2008: 48%) of total liabilities.

In management'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.

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

	2009			2008		
	Parent	*Associates*	*Key management personnel*	*Parent*	*Associates*	*Key management personnel*
Loans outstanding at 1 January, gross	**265**	**21,644**	**5,572**	**–**	**13,274**	**510**
Loans issued during the year	–	7,736	5,616	1,339	12,085	8,229
Loan repayments during the year	(265)	(10,322)	(8,633)	(1,074)	(9,709)	(3,375)
Other movements	–	(9,803)	3,236	–	5,994	208
Loans outstanding at 31 December, gross	**–**	**9,255**	**5,791**	**265**	**21,644**	**5,572**
Less: allowance for impairment at 31 December	–	(870)	(212)		(3,181)	(1,064)
Loans outstanding at 31 December, net	**–**	**8,385**	**5,579**	**265**	**18,463**	**4,508**
Interest income on loans	–	1,250	799	–	2,125	468
Loan impairment charge	–	594	(92)	–	3,099	120
Deposits at 1 January	**12,733**	**177**	**18,324**	**12,733**	**4,485**	**626**
Deposits received during the year	–	27,989	42,908	–	79,356	53,081
Deposits repaid during the year	(635)	(27,792)	(54,647)	–	(83,638)	(35,450)
Other movements	–	132	334	–	(26)	67
Deposits at 31 December	**12,098**	**506**	**6,919**	**12,733**	**177**	**18,324**
Interest expense on deposits	–	5	425	–	2	14
Other income	437	–	35	767	_	32

Compensation of key management personnel was comprised of the following:

	2009	2008
Salaries and other benefits	17,833	9,975
– Among them, termination benefits	*759*	*10*
Share-based payments compensation	10,530	7,820
– Among them, termination benefits	*2,178*	–
Social security costs	256	94
Recruitment costs	–	28
Total key management compensation	**28,619**	**17,917**

The number of key management personnel at 31 December 2009 was 151 (2008: 105).

(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 2009, the Bank and the Group had complied in full with all its externally imposed capital requirements.

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

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

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As of 31 December 2009 and 2008, the Bank's capital adequacy ratio on this basis was as follows:

	2009	*2008*
Core capital	535,427	573,146
Supplementary capital	269,729	162,902
Less: Deductions from capital	(347,853)	(269,427)
Total regulatory capital	**457,303**	**466,621**
Risk-weighted assets	**2,717,084**	**3,458,133**
Total capital adequacy ratio	**16.8%**	**13.5%**

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

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on consolidated statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2009 and 2008, follows:

	2009	*2008*
Tier 1 capital	548,710	637,753
Tier 2 capital	369,480	273,311
Less: Deductions from capital	(67,454)	(134,238)
Total regulatory capital	**850,736**	**776,826**
Risk-weighted assets	**2,454,763**	**2,950,653**
Total capital ratio	34.7%	26.3%
Tier 1 capital ratio	22.4%	21.6%
Minimum capital adequacy ratio	**8%**	**8%**

(Thousands of Georgian Lari)

32. Events After the Reporting Date

Termination of the executive functions of the Chairman

On 19 February 2010 the Supervisory Board decided to terminate the executive functions of its chairman – Nicholas Enukidze (the "Chairman"). In light of this decision, the Supervisory Board decided not to renew the service agreement with the Chairman, upon its expiration in May 2010. The Chairman and the Bank have signed a separation agreement on 20 February 2010, on the following terms:

- The Service Agreement is terminated effective 10 April 2010, provided that the Chairman remains a non-executive chairman until the next annual general meeting of shareholders (the "AGM");
- The Chairman will be entitled to his base salary for the period until the next AGM;
- As per Service Agreement, the Chairman will be entitled to the following separation package:
  - All of the 255,188 awarded but unvested shares and/or GDRs and/or options which have vested as of 5th of March 2010 (fully recognized as expense in 2009 consolidated income statement);
  - The Chairman has been paid a separation payment in the amount of 100% of his annual base salary (fully recognized as expense in 2009 consolidated income statement);
  - The Chairman has been granted 44,177 fully vested GDRs for his performance in 2009 (for full recognition as an expense in 2010 consolidated income statement).

Disposal of an available-for-sale financial investment and acquisition of a new subsidiary

On 16 February 2010, the Group disposed its investment in the 8.5% of a meat processing company – JSC "Nikora", carried at GEL 5,394 as of the disposal date. This 8.5% share ownership was sold back to JSC "Nikora" in the exchange for USD 1,700 thousand cash plus JSC "Nikora"'s investment in 25.14% equity of JSC Teliani Valley, which was an associate company of the Group at 16 February 2010.

As a result of this exchange, total shareholdings of the Group in JSC Teliani Valley comprised 52.33%, resulting in acquisition of control by the Group in JSC Teliani Valley – a business combination under IFRS 3. As of the date of acquisition, net value of the consideration given for the acquisition of control comprised GEL 7,437. This amount comprised as follows:

- GEL 4,946 – carrying value of the Group's investment in JSC Teliani Valley as of the acquisition date;
- plus GEL 5,394 – the carrying value of the investment in JSC "Nikora" as of disposal date;
- less GEL 2,903 – equivalent of USD 1,700 thousand received from JSC "Nikora" translated applying the official exchange rate of the National Bank of Georgia effective as of the acquisition date.

Total assets of JSC Teliani Valley as of acquisition date comprised GEL 19,351, total liabilities comprised GEL 10,712, resulting in net book value of GEL 8,639, of which 52.33% (i.e. GEL 4,521) was attributable to the shareholders of the Group. From this transaction, the Group has provisionally estimated goodwill of GEL 2,916, subject to any adjustments that might be necessary subsequent to more accurate fair valuation of the acquiree's assets and liabilities as of the acquisition date and more accurate purchase price allocation.