

**TBC BANK GROUP**

**International Financial Reporting Standards  
Consolidated Financial Statements and  
Independent Auditors' Report**

**For years ended 31 December 2011, 2010 and  
2009**

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## ***Independent Auditor's Report***

To the Shareholders and Management of JSC TBC Bank:

- 1 We have audited the accompanying consolidated financial statements of JSC TBC Bank and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2011, 2010 and 2009 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, 2010 and 2009 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

5 March 2012  
Tbilisi, Georgia

**TBC Bank Group**  
**Consolidated Statement of Financial Position**

<i>In thousands of GEL</i>	Notes	31 December 2011	31 December 2010	31 December 2009
<b>ASSETS</b>				
Cash and cash equivalents	6	374,153	275,425	332,848
Due from other banks	7	291,009	74,736	37,249
Loans and advances to customers	8	2,008,745	1,380,955	988,428
Investment securities available for sale	9	266,436	216,323	3,619
Investment securities held to maturity	10	28,956	28,986	115,496
Investments in finance leases	12	21,979	9,681	14,090
Investment properties	15	27,082	27,742	9,785
Current income tax prepayment		-	2,500	2,193
Goodwill	16	2,726	1,262	1,958
Intangible assets	14	10,064	3,560	5,178
Premises and equipment	14	163,879	144,429	148,291
Other financial assets	11	11,339	5,930	7,063
Other assets	13	93,653	93,137	71,822
Assets of disposal group classified as held for sale	17	-	3,115	-
<b>TOTAL ASSETS</b>		<b>3,300,021</b>	<b>2,267,781</b>	<b>1,738,020</b>
<b>LIABILITIES</b>				
Due to other banks	18	110,378	47,762	27,366
Customer accounts	19	1,999,256	1,365,352	991,172
Other borrowed funds	23	517,772	280,906	223,401
Current income tax liability		14,162	-	-
Deferred income tax liability	34	8,048	7,294	1,369
Provisions for liabilities and charges	20	8,434	6,881	5,289
Other financial liabilities	21	11,305	3,932	5,725
Other liabilities	22	19,405	19,681	6,602
Subordinated debt	24	142,480	158,401	150,353
Liabilities of disposal group classified as held for sale	17	-	300	-
<b>TOTAL LIABILITIES</b>		<b>2,831,240</b>	<b>1,890,509</b>	<b>1,411,277</b>
<b>EQUITY</b>				
Share capital	25	15,171	15,113	15,000
Share premium	25	203,308	201,723	201,723
Retained earnings		201,826	123,423	71,920
Share based payment reserve	26	6,180	-	-
Other reserves	29	33,162	31,813	32,806
<b>Net assets attributable to the Bank's equity holders</b>		<b>459,647</b>	<b>372,072</b>	<b>321,449</b>
<b>Non-controlling interest</b>		<b>9,134</b>	<b>5,200</b>	<b>5,294</b>
<b>TOTAL EQUITY</b>		<b>468,781</b>	<b>377,272</b>	<b>326,743</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,300,021</b>	<b>2,267,781</b>	<b>1,738,020</b>

Approved for issue and signed on behalf of the Board of Directors on 5 March 2012

  
Vakhtang Butskhrikidze  
Chief Executive Officer

  
Giorgi Shagidze  
Chief Financial Officer

The notes set out on pages 5 to 79 form an integral part of these consolidated financial statements.

**TBC Bank Group**  
**Consolidated Statement of Comprehensive Income**

<i>In thousands of GEL</i>	<b>Notes</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Interest income	30	360,215	271,805	264,934
Interest expense	30	(151,134)	(108,991)	(102,692)
<b>Net interest income</b>		<b>209,081</b>	<b>162,814</b>	<b>162,242</b>
Provision for loan impairment	8	(16,049)	(31,320)	(94,055)
<b>Net interest income after provision for loan impairment</b>		<b>193,032</b>	<b>131,494</b>	<b>68,187</b>
Fee and commission income	31	43,802	30,659	27,021
Fee and commission expense	31	(15,094)	(11,605)	(9,027)
Gains less losses from trading in foreign currencies		25,419	22,803	17,733
Net (losses less gains) / gains less losses from derivative financial instruments	38	(4,987)	(300)	60
Foreign exchange translation gains less losses/(losses less gains)		394	(664)	274
Losses on initial recognition of assets at rates below market		-	-	(3,365)
Recovery of impairment / (impairment) of investment securities available for sale		116	(173)	(257)
(Losses less gains) / gains less losses from disposal of investment securities available for sale		-	(166)	7,920
(Provision) / recovery of provision for liabilities and charges	20	(1,553)	(3,092)	35
Recovery of provision / (provision) for impairment of investments in finance lease	12	174	(900)	445
(Provision) / recovery of provision for impairment of other financial assets	11	(397)	(713)	(179)
Recovery of impairment / (impairment) for assets classified as held for sale	17	1,519	(1,519)	-
Other operating income	32	9,923	8,972	8,662
Staff costs including salaries, bonuses and share based compensation		(78,426)	(57,146)	(48,870)
Depreciation and amortisation	14,15	(15,088)	(14,162)	(18,298)
Administrative and other operating expenses	33	(51,744)	(47,276)	(46,385)
<b>Profit before tax</b>		<b>107,090</b>	<b>56,212</b>	<b>3,956</b>
Income tax expense	34	(15,465)	(6,777)	(996)
<b>Profit for the year</b>		<b>91,625</b>	<b>49,435</b>	<b>2,960</b>
<b>Other comprehensive income:</b>				
Available-for-sale investments:				
- Revaluation	29	1,277	(286)	1,072
- Reclassification adjustments for gains less losses included in profit or loss	29	-	-	(788)
Revaluation of premises and equipment	29	1,311	-	-
Exchange differences on translation to presentation currency		(904)	1,062	(224)
Income tax recorded directly in other comprehensive income		(335)	41	(41)
<b>Other comprehensive income for the year</b>		<b>1,349</b>	<b>817</b>	<b>19</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>92,974</b>	<b>50,252</b>	<b>2,979</b>
<b>Profit is attributable to:</b>				
- Owners of the Bank		90,898	49,374	2,831
- Non-controlling interest		727	61	129
<b>Profit for the year</b>		<b>91,625</b>	<b>49,435</b>	<b>2,960</b>
<b>Total comprehensive income is attributable to:</b>				
- Owners of the Bank		92,247	50,191	2,850
- Non-controlling interest		727	61	129
<b>Total comprehensive income for the year</b>		<b>92,974</b>	<b>50,252</b>	<b>2,979</b>
<b>Earnings per share for profit attributable to the owners of the Bank</b>				
- Basic earnings per share	27	600.6	329.0	20.5
- Diluted earnings per share	27	598.5	327.8	20.4

**TBC Bank Group**  
**Consolidated Statement of Changes in Equity**

		Attributable to equity holders of the Bank					Total	Non-controlling interest	Total equity
		Share capital	Share premium	Share based payments reserve	Other reserves (note 29)	Retained earnings			
<i>In thousands of GEL</i>	<b>Note</b>								
<b>Balance at 1 January 2009</b>		<b>11,700</b>	<b>138,748</b>	<b>-</b>	<b>32,787</b>	<b>69,089</b>	<b>252,324</b>	<b>5,165</b>	<b>257,489</b>
Profit for the year		-	-	-	-	2,831	<b>2,831</b>	129	<b>2,960</b>
Other comprehensive income		-	-	-	19	-	<b>19</b>	-	<b>19</b>
Total comprehensive income for 2009		-	-	-	19	2,831	<b>2,850</b>	129	<b>2,979</b>
Share issue	25	3,300	62,700	-	-	-	<b>66,000</b>	-	<b>66,000</b>
Share based payment	26	-	275	-	-	-	<b>275</b>	-	<b>275</b>
<b>Balance at 31 December 2009</b>		<b>15,000</b>	<b>201,723</b>	<b>-</b>	<b>32,806</b>	<b>71,920</b>	<b>321,449</b>	<b>5,294</b>	<b>326,743</b>
Profit for the year		-	-	-	-	49,374	<b>49,374</b>	61	<b>49,435</b>
Other comprehensive income		-	-	-	817	-	<b>817</b>	-	<b>817</b>
Total comprehensive income for 2010		-	-	-	817	49,374	<b>50,191</b>	61	<b>50,252</b>
Share issue	25	113	-	-	-	-	<b>113</b>	-	<b>113</b>
Transfer of revaluation surplus on premises to retained earnings		-	-	-	(1,810)	2,129	<b>319</b>	-	<b>319</b>
Disposal of non-controlling interest in subsidiaries		-	-	-	-	-	-	(155)	<b>(155)</b>
<b>Balance at 31 December 2010</b>		<b>15,113</b>	<b>201,723</b>	<b>-</b>	<b>31,813</b>	<b>123,423</b>	<b>372,072</b>	<b>5,200</b>	<b>377,272</b>
Profit for the year		-	-	-	-	90,898	<b>90,898</b>	727	<b>91,625</b>
Other comprehensive income		-	-	-	1,349	-	<b>1,349</b>	-	<b>1,349</b>
Total comprehensive income for 2011		-	-	-	1,349	90,898	<b>92,247</b>	727	<b>92,974</b>
Share issue	25	58	1,585	-	-	-	<b>1,643</b>	-	<b>1,643</b>
Share based payment	26	-	-	6,180	-	-	<b>6,180</b>	-	<b>6,180</b>
Dividends paid		-	-	-	-	(12,495)	<b>(12,495)</b>	-	<b>(12,495)</b>
Business combination	42	-	-	-	-	-	-	3,207	<b>3,207</b>
<b>Balance at 31 December 2011</b>		<b>15,171</b>	<b>203,308</b>	<b>6,180</b>	<b>33,162</b>	<b>201,826</b>	<b>459,647</b>	<b>9,134</b>	<b>468,781</b>



**TBC Bank Group**  
**Consolidated Statement of Cash Flows**

<i>In thousands of GEL</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>				
Interest received		346,346	243,707	280,588
Interest paid		(168,368)	(108,275)	(98,761)
Fees and commissions received		42,746	30,377	26,211
Fees and commissions paid		(15,094)	(11,605)	(9,027)
Income received from trading in foreign currencies		25,418	21,839	17,735
Other operating income received		10,980	7,745	5,724
Staff costs paid		(67,478)	(48,768)	(48,870)
Administrative and other operating expenses paid		(50,921)	(36,405)	(46,365)
Income tax (paid) / refunded		(438)	(1,348)	462
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>123,191</b>	<b>97,267</b>	<b>127,697</b>
<b>Changes in operating assets and liabilities</b>				
Net (increase) / decrease in due from other banks		(217,232)	(36,752)	10,597
Net (increase) / decrease in loans and advances to customers		(660,195)	(443,889)	195,631
Net decrease in investment in finance lease		-	4,409	9,676
Net decrease / (increase) in other financial assets		-	2,770	(5,354)
Net decrease / (increase) in other assets		11,287	(6,205)	(66,077)
Net increase in due to other banks		62,181	20,304	3,418
Net increase in customer accounts		703,751	373,562	140,616
Net (decrease) / increase in other liabilities		(2,091)	653	3,021
<b>Net cash from operating activities</b>		<b>20,892</b>	<b>12,119</b>	<b>419,225</b>
<b>Cash flows from investing activities</b>				
Acquisition of investment securities available for sale	9	(646,538)	(483,844)	(198)
Proceeds from disposal of investment securities available for sale		47,815	38,461	8,672
Proceeds from redemption at maturity of investment securities available for sale	9	571,104	236,411	-
Proceeds from disposal of associate		-	-	1,773
Acquisition of investment securities held to maturity	10	-	(27,921)	(215,196)
Proceeds from redemption of investment securities held to maturity	10	-	115,496	120,906
Acquisition of premises, equipment and intangible assets		(30,634)	(13,931)	(10,419)
Proceeds from disposal of investment property	15	4,389	-	-
Proceeds from disposal of subsidiary, net of disposed cash	42	150	-	-
<b>Net cash used in investing activities</b>		<b>(53,714)</b>	<b>(135,328)</b>	<b>(94,462)</b>
<b>Cash flows from financing activities</b>				
Proceeds from other borrowed funds		359,985	57,505	12,671
Redemption of other borrowed funds		(208,316)	-	(497,713)
Proceeds from subordinated debt		-	8,048	70,774
Redemption of subordinated debt		(7,875)	-	-
Dividends paid		(12,495)	-	-
Issue of ordinary shares		-	113	66,275
<b>Net cash from / (used in) financing activities</b>		<b>131,299</b>	<b>65,666</b>	<b>(347,993)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>251</b>	<b>120</b>	<b>332</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>98,728</b>	<b>(57,423)</b>	<b>(22,898)</b>
Cash and cash equivalents at the beginning of the year	6	<b>275,425</b>	<b>332,848</b>	<b>355,746</b>
<b>Cash and cash equivalents at the end of the year</b>	6	<b>374,153</b>	<b>275,425</b>	<b>332,848</b>

**1 Introduction**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for years ended 31 December 2011, 2010 and 2009 for TBC Bank (the “Bank”) and its subsidiaries (together referred to as the “Group” or “TBC Bank Group”).

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

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

	<b>31 December 2011 Ownership interest, %</b>	<b>31 December 2010 Ownership interest, %</b>	<b>31 December 2009 Ownership interest, %</b>
<b>Shareholders</b>			
International Finance Corporation	20%	20%	20%
European Bank for Reconstruction and Development	20%	20%	20%
TBC Holdings LTD	21%	21%	-
Deutsche Investitions und Entwicklungsgesellschaft MBH	11%	11%	12%
Liquid Crystal International N.V. LLC	7%	7%	-
Individuals	8%	8%	35%
JPMorgan Chase Bank	5%	5%	5%
Ashmore Cayman SPC	5%	5%	5%
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	3%	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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

The Bank has 13 (2010: 13; 2009: 13) branches and 37 (2010: 32; 2009: 30) service centres within Georgia. As at 31 December 2011, the Group had 2,598 employees (2010: 2,291 employees; 2009: 2,293 employees).

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

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

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



## 2 Summary of Significant Accounting Policies

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

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

The consolidated financial statements include the following principal subsidiaries:

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

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

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

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

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

**2 Summary of Significant Accounting Policies (Continued)**

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

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

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

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

**Associates.** Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments 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.

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

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

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

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

## 2 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

**2 Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

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

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

**2 Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

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

**2 Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

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

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

**2 Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

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

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

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

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



**2 Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

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

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

**2 Summary of Significant Accounting Policies (Continued)**

**Derivative financial instruments.** Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value.

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

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

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

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

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

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

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

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

**Share capital.** Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

**2 Summary of Significant Accounting Policies (Continued)**

**Income and expense recognition.** Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

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

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

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

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

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

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- (ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) components of equity are translated at the historic rate; and
- (iv) all resulting exchange differences are recognised in other comprehensive income.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

**2 Summary of Significant Accounting Policies (Continued)**

At 31 December 2011 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.6703 (2010: USD 1 = GEL 1.7728; 2009: USD 1 = GEL 1.6858); EUR 1 = GEL 2.1614 (2010: EUR 1 = GEL 2.3500; 2009: EUR 1 = GEL 2.4195).

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

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

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

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

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

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

**3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies**

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

**Purchase price allocation.** The allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values resulted in changes in the carrying values of tangible and intangible assets of the acquired entity. As part of the accounting for business combinations it is also necessary to perform a purchase price allocation exercise to identify appropriate categories of intangible assets that have been purchased. Such exercise involves management judgement with regard to the types of assets identified and the useful economic lives applied with regard to amortisation rates. The amounts recognised are calculated by reference to management forecasts and assumed discount rates, obsolescence curves and attrition rates. Refer to Note 42. This exercise may result in the recognition of goodwill, which is not deductible for tax purposes. Goodwill consists of the excess of purchase price over the fair value of the acquired assets and represents the estimated economic value attributable to future operations.

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

**Impairment losses on loans and advances and finance lease receivables.** The Group regularly reviews its loan portfolio and finance lease receivables to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans or finance lease receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 7,933 thousand (2010: GEL 8,313 thousand; 2009: GEL 8,946 thousand) and additional charge for impairment of finance lease receivables of GEL 5 thousand (2010: GEL 5 thousand; 2009: GEL 28 thousand), respectively.

Impairment provisions for individually significant loans and leases are based on the estimate of discounted future cash flows of the individual loans and leases taking into account repayments and realisation of any assets held as collateral against the loan or the lease. A 5% increase or decrease in the actual future discounted cash flows from individually significant loans which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for loan loss provision of GEL 4,232 thousand (2010: GEL 4,272 thousand; 2009: GEL 5,460 thousand), respectively. A 5% increase or decrease in the actual future discounted cash flows from individually significant leases which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for provision of nil (2010: GEL 21 thousand; 2009: GEL 19 thousand), respectively.

**Fair value disclosure of investment properties.** Investment properties held by the Group are carried at cost. However, as per the requirements of IAS 40, the Group also discloses the fair value of investment properties as at the reporting dates. Fair value is determined by internal appraisers of the group. In determining the fair values of investment properties, the Group uses the available information on the real estate market in the media, reports of independent appraisers, who hold a recognised and relevant professional qualification, information available on the valuation of similar assets and the general knowledge of the Group's internal appraisers. At 31 December 2011, investment properties comprised real estate assets located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 37,966 thousand (2010: GEL 41,914 thousand; 2009: GEL 13,741 thousand).

**Finance leases and derecognition of financial assets.** Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards. As at 31 December 2011 the entity had investments in finance lease of GEL 21,979 thousand (31 December 2010: GEL 9,681 thousand; 31 December 2009: GEL 14,090 thousand).

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

**Initial recognition of related party transactions.** In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. In management judgment, at 31 December 2011, 2010 and 2009, there were no loans and advances at other than market conditions. Terms and conditions of related party balances are disclosed in Note 41.

**Goodwill.** Recoverable amount of goodwill was estimated based on value in use calculation. Refer to Note 16.

**4 Adoption of New or Revised Standards and Interpretations**

The following new standards and interpretations became effective for the Group from 1 January 2011:

***Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).*** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties.

***Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).*** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

***Other revised standards and interpretations effective for the current period.*** IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these consolidated financial statements.

**5 New Accounting Pronouncements**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Group has not early adopted.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

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

**IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),** replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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



## 5 New Accounting Pronouncements (Continued)

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

**IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its consolidated financial statements.

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

**IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)**. The amendment of IAS 28 resulted from the Board’s project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group does not expect the amendment to have any material effect on its consolidated financial statements.

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

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

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

**5 New Accounting Pronouncements (Continued)**

**Other revised standards and interpretations:** The amendments to IFRS 1 “First-time adoption of IFRS”, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, will not have any impact on these consolidated financial statements. The amendment to IAS 12 “Income taxes”, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these consolidated financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry.

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

**6 Cash and Cash Equivalents**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Cash on hand	116,938	95,138	83,793
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	53,024	22,163	51,122
Correspondent accounts and overnight placements with other banks	128,552	123,516	122,587
Placements with and receivables from other banks with original maturities of less than three months	75,639	34,608	75,346
<b>Total cash and cash equivalents</b>	<b>374,153</b>	<b>275,425</b>	<b>332,848</b>

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

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
AA	749	203	3,144
AA-	1,242	14,984	7,582
A+	66,025	101,778	96,163
A	51,515	10	14,325
A-	170	596	505
BBB+	563	130	-
BBB	-	-	-
BBB-	366	53	-
BB	-	-	-
Not Rated	7,922	5,762	868
<b>Total</b>	<b>128,552</b>	<b>123,516</b>	<b>122,587</b>

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
A+	-	-	24,195
A	-	-	24,195
BBB	-	-	5,057
B-	-	-	4,935
Not Rated	75,639	34,608	16,964
<b>Total</b>	<b>75,639</b>	<b>34,608</b>	<b>75,346</b>

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

**7 Due from Other Banks**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Placements with other banks with original maturities of more than three months	40,942	16,160	2,110
Mandatory cash balances with the National Bank of Georgia	250,067	58,576	35,139
<b>Total due from other banks</b>	<b>291,009</b>	<b>74,736</b>	<b>37,249</b>

Mandatory cash balances with the National Bank of Georgia ("NBG") represents amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 2% annual interest on the mandatory reserve with the NBG in 2011, 2010 and 2009.

Amounts due from other banks are not collateralised and represent current and not impaired amounts at the end of 2011, 2010 and 2009.

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
A+	-	528	1,011
A	-	54	51
BBB+	-	-	543
BBB-	-	13,944	-
Not Rated – subsidiary bank of a large foreign bank	40,942	1,634	505
<b>Placements with other banks with original maturities of more than three months</b>	<b>40,942</b>	<b>16,160</b>	<b>2,110</b>

At 31 December 2011 the Group had placements with one counterparty bank with original maturities of more than three months and with aggregated amounts above GEL 1,000 thousand (2010: two banks; 2009: nil). The total aggregate amount of these deposits was GEL 40,006 thousand (2010: GEL 14,037 thousand; 2009: nil) or 97.7% of the total placements with other banks with original maturities of more than three months (2010: 86.8%; 2009: nil).

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

**8 Loans and Advances to Customers**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Corporate loans	1,003,849	811,559	602,579
Consumer loans	381,512	284,310	208,520
Mortgage loans	371,867	260,064	170,547
Loans to small and medium enterprises	234,831	152,946	153,818
Micro loans	118,934	-	-
Others	56,412	39,530	33,913
<b>Total loans and advances to customers (before impairment)</b>	<b>2,167,405</b>	<b>1,548,409</b>	<b>1,169,377</b>
Less: Provision for loan impairment	(158,660)	(167,454)	(180,949)
<b>Total loans and advances to customers</b>	<b>2,008,745</b>	<b>1,380,955</b>	<b>988,428</b>

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

**8 Loans and Advances to Customers (Continued)**

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

	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Total
<i>In thousands of GEL</i>						
<b>Provision for loan impairment at 1 January 2011</b>	<b>116,440</b>	<b>24,527</b>	<b>15,924</b>	<b>10,563</b>	<b>-</b>	<b>167,454</b>
Provision for impairment during the year	20,617	2,698	(3,564)	(4,148)	446	<b>16,049</b>
Amounts written off during the year as uncollectible	(29,930)	(11,186)	(5,015)	(3,850)	(570)	<b>(50,551)</b>
Recovery of amounts previously written off as uncollectible	6,979	9,755	5,031	3,009	934	<b>25,708</b>
<b>Provision for loan impairment at 31 December 2011</b>	<b>114,106</b>	<b>25,794</b>	<b>12,376</b>	<b>5,574</b>	<b>810</b>	<b>158,660</b>

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

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

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

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

**8 Loans and Advances to Customers (Continued)**

Movements in the provision for loan impairment during 2009 are as follows:

	Corporate loans	Consumer loans	Mortgag e loans	Small and medium enterprises	Total
<i>In thousands of GEL</i>					
<b>Provision for loan impairment at 1 January 2009</b>	<b>142,267</b>	<b>21,720</b>	<b>2,303</b>	<b>1,184</b>	<b>167,474</b>
Provision for impairment during the year	31,978	37,053	11,879	13,145	94,055
Amounts written off during the year as uncollectible	(87,428)	(29,760)	(3,874)	(4,059)	(125,121)
Recovery of amounts previously written off as uncollectible	36,700	5,844	1,443	554	44,541
<b>Provision for loan impairment at 31 December 2009</b>	<b>123,517</b>	<b>34,857</b>	<b>11,751</b>	<b>10,824</b>	<b>180,949</b>

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

	2011		2010		2009	
<i>In thousands of GEL</i>	Amount	%	Amount	%	Amount	%
Individuals	787,886	36%	544,374	35%	406,689	35%
Trade and services	359,668	16%	147,794	10%	80,183	7%
Real estate	148,633	7%	119,280	8%	166,082	14%
Consumer goods and automobile trading	121,580	6%	95,555	6%	75,060	6%
Oil and gas	120,420	6%	118,339	8%	72,247	6%
Energy	105,890	5%	106,630	7%	28,290	2%
Food industry	96,700	4%	69,627	4%	50,025	4%
Communication	96,611	4%	53,635	3%	31,824	3%
Construction	92,837	4%	99,769	6%	92,946	8%
Pawn shop	56,412	3%	39,530	3%	33,913	3%
Agriculture	56,104	3%	41,287	3%	46,159	4%
Transportation	55,401	2%	24,587	2%	33,608	3%
Mining	23,195	1%	28,395	2%	6,889	1%
Manufacturing	12,020	1%	23,827	1%	10,767	1%
Other	34,048	2%	35,780	2%	34,695	3%
<b>Total loans and advances to customers (before impairment)</b>	<b>2,167,405</b>	<b>100%</b>	<b>1,548,409</b>	<b>100%</b>	<b>1,169,377</b>	<b>100%</b>

Included in concentration to individuals are micro loans disbursed to individual borrowers amounting to GEL 32,688 thousand (2010: nil; 2009: nil).

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

At 31 December 2011 the Group had 52 borrowers (2010: 43 borrowers; 2009: 31 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 746,079 thousand (2010: GEL 588,658 thousand; 2009: GEL 317,876 thousand) or 37% of the gross loan portfolio (2010: 38%; 2009: 27%).

**8 Loans and Advances to Customers (Continued)**

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

	Corporate loans	Consum er loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
<i>In thousands of GEL</i>							
<i>Current and not impaired</i>							
- Borrowers with credit history over two years	383,614	135,658	195,190	85,933	2,099	-	<b>802,494</b>
- New borrowers	577,053	223,432	165,523	138,134	116,361	56,412	<b>1,276,915</b>
<b>Total current and not impaired</b>	<b>960,667</b>	<b>359,090</b>	<b>360,713</b>	<b>224,067</b>	<b>118,460</b>	<b>56,412</b>	<b>2,079,409</b>
<i>Past due but not impaired</i>							
- 1 to 30 days overdue	790	7,021	1,278	1,309	391	-	<b>10,789</b>
- 30 to 90 days overdue	12	3,498	1,055	487	83	-	<b>5,135</b>
<b>Total past due but not impaired</b>	<b>802</b>	<b>10,519</b>	<b>2,333</b>	<b>1,796</b>	<b>474</b>	<b>-</b>	<b>15,924</b>
<i>Loans individually determined to be impaired (gross)</i>							
- not overdue	25,786	-	-	-	-	-	<b>25,786</b>
- 1 to 30 days overdue	5,586	-	-	-	-	-	<b>5,586</b>
- 90 to 180 days overdue	2,120	-	-	-	-	-	<b>2,120</b>
<b>Total individually impaired loans</b>	<b>33,492</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,492</b>
<b>Other impaired loans</b>	<b>8,888</b>	<b>11,903</b>	<b>8,821</b>	<b>8,968</b>	<b>-</b>	<b>-</b>	<b>38,580</b>
<b>Total loans and advances to customers (before impairment)</b>	<b>1,003,849</b>	<b>381,512</b>	<b>371,867</b>	<b>234,831</b>	<b>118,934</b>	<b>56,412</b>	<b>2,167,405</b>
<b>Total provision</b>	<b>(114,106)</b>	<b>(25,794)</b>	<b>(12,376)</b>	<b>(5,574)</b>	<b>(810)</b>	<b>-</b>	<b>(158,660)</b>
<b>Total loans and advances to customers</b>	<b>889,743</b>	<b>355,718</b>	<b>359,491</b>	<b>229,257</b>	<b>118,124</b>	<b>56,412</b>	<b>2,008,745</b>

**8 Loans and Advances to Customers (Continued)**

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

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



**8 Loans and Advances to Customers (Continued)**

Analysis by credit quality of loans outstanding at 31 December 2009 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Others	Total
<i>In thousands of GEL</i>						
<i>Current and not impaired</i>						
- Borrowers with credit history over two years	86,053	29,501	69,417	41,278	-	<b>226,249</b>
- New borrowers	328,885	147,606	88,708	89,765	33,913	<b>688,877</b>
<b>Total current and not impaired</b>	<b>414,938</b>	<b>177,107</b>	<b>158,125</b>	<b>131,043</b>	<b>33,913</b>	<b>915,126</b>
<i>Past due but not impaired</i>						
- 1 to 30 days overdue	127	5,387	2,078	5,531	-	<b>13,123</b>
- 30 to 90 days overdue	71	3,633	2,434	2,667	-	<b>8,805</b>
- 90 to 180 days overdue	-	-	-	90	-	<b>90</b>
- 180 – 360 days overdue	-	2	-	21	-	<b>23</b>
<b>Total past due but not impaired</b>	<b>198</b>	<b>9,022</b>	<b>4,512</b>	<b>8,309</b>	<b>-</b>	<b>22,041</b>
<i>Loans individually determined to be impaired (gross)</i>						
- not overdue	165,801	-	-	-	-	<b>165,801</b>
- 1 to 30 days overdue	2,605	-	-	-	-	<b>2,605</b>
- 30 to 90 days overdue	449	-	-	-	-	<b>449</b>
- 90 to 180 days overdue	4,997	-	-	-	-	<b>4,997</b>
<b>Total individually impaired loans</b>	<b>173,852</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>173,852</b>
<b>Other impaired loans</b>	<b>13,591</b>	<b>22,391</b>	<b>7,910</b>	<b>14,466</b>	<b>-</b>	<b>58,358</b>
<b>Total loans and advances to customers (before impairment)</b>	<b>602,579</b>	<b>208,520</b>	<b>170,547</b>	<b>153,818</b>	<b>33,913</b>	<b>1,169,377</b>
<b>Total provision</b>	<b>(123,518)</b>	<b>(34,856)</b>	<b>(11,751)</b>	<b>(10,824)</b>	<b>-</b>	<b>(180,949)</b>
<b>Total loans and advances to customers</b>	<b>479,061</b>	<b>173,664</b>	<b>158,796</b>	<b>142,994</b>	<b>33,913</b>	<b>988,428</b>

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

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

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

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

The overdue amounts reported throughout the table represent the total balance of loans, not only the particular instalment (s) that is overdue.

**8 Loans and Advances to Customers (Continued)**

The presentation of the credit quality of loans in the consolidated financial statements for the year ended 31 December 2010 and 31 December 2009 differs from the presentation in the current consolidated financial statements due to change in the credit quality presentation described above.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are the following:

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

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

The effect of collateral at 31 December 2011:

<i>In thousands of GEL</i>	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	775,932	3,219,868	227,917	111,416
Consumer loans	212,443	585,829	169,069	4,417
Mortgage loans	356,625	926,611	15,242	5,452
Loans to small and medium enterprises	223,090	765,597	11,741	4,202
Micro loans	42,795	112,656	76,139	1,476
Others	56,412	56,399	-	-
<b>Total</b>	<b>1,667,297</b>	<b>5,666,960</b>	<b>500,108</b>	<b>126,963</b>

The effect of collateral at 31 December 2010:

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

The effect of collateral at 31 December 2009:

<i>In thousands of GEL</i>	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	532,585	2,910,519	69,994	27,522
Consumer loans	96,970	335,888	111,550	5,268
Mortgage loans	158,323	538,260	12,224	6,728
Loans to small and medium enterprises	147,411	810,343	6,407	930
Others	33,913	33,913	-	-
<b>Total</b>	<b>969,202</b>	<b>4,628,923</b>	<b>200,175</b>	<b>40,448</b>

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

**8 Loans and Advances to Customers (Continued)**

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

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

**9 Investment Securities Available for Sale**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Certificates of Deposit of National Bank of Georgia	168,537	126,148	-
Ministry of Finance of Georgia Treasury Bills	61,014	86,841	-
Georgian Government notes	32,942	-	-
<b>Total debt securities</b>	<b>262,493</b>	<b>212,989</b>	<b>-</b>
Corporate shares – unquoted	1,812	1,766	1,766
Corporate shares – quoted (VISA Inc)	2,131	1,568	1,853
<b>Total investment securities available for sale</b>	<b>266,436</b>	<b>216,323</b>	<b>3,619</b>

Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale. Therefore, these investments are carried at cost of GEL 1,812 thousand (2010: GEL 1,766 thousand; 2009: GEL 1,766 thousand). The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

At 31 December 2011 no investment securities available for sale have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2010: GEL 58,463 thousand; 2009: nil). Refer to Note 23.

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

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Carrying amount at 1 January</b>	<b>216,323</b>	<b>3,619</b>	<b>4,729</b>
Purchases	646,538	483,844	198
Disposals	(47,815)	(38,461)	(2,123)
Redemption at maturity	(571,104)	(236,411)	-
Revaluation	1,277	(286)	1,072
Interest income accrued (Note 30)	23,253	10,317	-
Interest income received	(2,036)	(6,299)	-
Impairment	-	-	(257)
<b>Carrying amount at 31 December</b>	<b>266,436</b>	<b>216,323</b>	<b>3,619</b>

At 31 December 2011 the principal equity investment securities available for sale are:

<b>Name</b>	<b>Nature of business</b>	<b>Country of registration</b>	<b>Carrying value</b>		
			<b>2011</b>	<b>2010</b>	<b>2009</b>
JSC GRDC	Property development	Netherlands Antilles	1,502	1,502	1,502
Visa Inc.	Card Processing	USA	2,131	1,568	1,853
Other			310	264	264
<b>Total</b>			<b>3,943</b>	<b>3,334</b>	<b>3,619</b>

**10 Investment Securities Held to Maturity**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Georgian Government notes	28,956	28,986	69,680
Ministry of Finance of Georgia Treasury Bills	-	-	45,816
<b>Total investment securities held to maturity</b>	<b>28,956</b>	<b>28,986</b>	<b>115,496</b>

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Gross amount at 1 January</b>	<b>28,986</b>	<b>115,496</b>	<b>21,207</b>
Additions	-	27,921	215,196
Redemption at maturity	-	(115,496)	(120,906)
Interest income accrual (Note 30)	3,642	1,577	15,442
Interest income received	(3,672)	(512)	(15,443)
<b>Gross amount at 31 December</b>	<b>28,956</b>	<b>28,986</b>	<b>115,496</b>

In the consolidated financial statements for the year ended 31 December 2010 the Group incorrectly accounted for reclassification of investments held to maturity with the amount of GEL 115,496 thousand to the available for sale category. This incorrect reclassification did not have any material measurement consequences either in the consolidated statement of comprehensive income or consolidated statement of financial position since all of these securities were redeemed prior to 31 December 2010. In the consolidated statement of cash flows for the year ended 31 December 2010 redemption of the investments were classified under heading Redemption of Investment Securities Held to Maturity in the amount of GEL 115,496 thousand, which in the current set of accounts is presented under caption proceeds from redemption at maturity of investment securities available for sale.

None of the investments held to maturity are overdue or impaired.

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

**11 Other Financial Assets**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Receivable on terminated leases	4,528	5,473	4,206
Prepayments for purchase of leasing assets	5,480	1,691	54
Receivables on credit card services and money transfers	1,025	596	1,266
Receivables on guarantees	575	475	3,039
Debtors from foreclosed assets and investing activities	-	-	1,891
Debtors from sale of available for sale instruments	-	-	671
Other	3,697	2,692	2,824
Less: Provision for impairment	(3,966)	(4,997)	(6,888)
<b>Total other financial assets</b>	<b>11,339</b>	<b>5,930</b>	<b>7,063</b>

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

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

**11 Other Financial Assets (Continued)**

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

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

Movements in the provision for impairment of other financial assets during 2009 are as follows:

<i>In thousands of GEL</i>	Receivables on terminated leases	Receivables on guarantees	Other	Total
<b>Provision for impairment at 1 January 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Provision for impairment during the year*	4,206	2,604	78	6,888
<b>Provision for impairment at 31 December 2009</b>	<b>4,206</b>	<b>2,604</b>	<b>78</b>	<b>6,888</b>

\*The provision for impairment during 2009 differs from the amount presented in the consolidated statement of profit or loss for the year due to recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in the consolidated statement of profit or loss for the year.

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

<i>In thousands of GEL</i>	2011	2010	2009
<i>Current and not impaired</i>			
- Prepayments for purchase of leasing assets	5,480	1,691	54
- Receivables on credit card services and money transfers	1,025	596	1,266
- Receivables on guarantees	575	475	435
- Debtors from foreclosed assets and investing activities	-	-	1,891
- Debtors from sale of available for sale instruments	-	-	671
- Other	3,697	2,334	2,824
<b>Total current and not impaired</b>	<b>10,777</b>	<b>5,096</b>	<b>7,141</b>
<i>Receivables individually determined to be impaired (gross)</i>			
- Receivables on terminated leases	4,528	5,473	4,206
- Other receivables	-	358	-
- Receivables on guarantees	-	-	2,604
<b>Total individually impaired (gross)</b>	<b>4,528</b>	<b>5,831</b>	<b>6,810</b>
<b>Less impairment provision</b>	<b>(3,966)</b>	<b>(4,997)</b>	<b>(6,888)</b>
<b>Total other financial assets</b>	<b>11,339</b>	<b>5,930</b>	<b>7,063</b>

Receivables on terminated leases are under-collateralised, estimated fair value of collateral on these equals GEL 636 thousand (2010: GEL 921 thousand; 2009: GEL 745 thousand).

**12 Investments in Finance Lease**

Investments in finance lease of GEL 21,979 thousand (2010: GEL 9,681 thousand; 2009: GEL 14,090 thousand) are represented by leases of equipment. Financial lease receivables are collateralised by leased equipment.

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

<i>In thousands of GEL</i>	<b>Due in 1 year</b>	<b>Due between 2 and 5 years</b>	<b>Total</b>
<b>Finance lease payments receivable at 31 December 2011</b>	<b>14,110</b>	<b>15,742</b>	<b>29,852</b>
Unearned finance income	(4,209)	(3,556)	<b>(7,765)</b>
Impairment loss provision	(61)	(47)	<b>(108)</b>
<b>Present value of lease payments receivable at 31 December 2011</b>	<b>9,840</b>	<b>12,139</b>	<b>21,979</b>
<b>Finance lease payments receivable at 31 December 2010</b>	<b>7,401</b>	<b>5,807</b>	<b>13,208</b>
Unearned finance income	(1,798)	(1,215)	<b>(3,013)</b>
Impairment loss provision	(307)	(207)	<b>(514)</b>
<b>Present value of lease payments receivable at 31 December 2010</b>	<b>5,296</b>	<b>4,385</b>	<b>9,681</b>
<b>Finance lease payments receivable at 31 December 2009</b>	<b>9,331</b>	<b>11,027</b>	<b>20,358</b>
Unearned finance income	(2,855)	(2,484)	<b>(5,339)</b>
Impairment loss provision	(41)	(888)	<b>(929)</b>
<b>Present value of lease payments receivable at 31 December 2009</b>	<b>6,435</b>	<b>7,655</b>	<b>14,090</b>

At 31 December 2011 the estimated fair value of financial lease receivables was GEL 21,979 thousand (2010: GEL 9,681 thousand; 2009: GEL 14,090 thousand). Refer to Note 39.

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

<i>In thousands of GEL</i>	<b>31 December 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
<b>Provision for impairment at the beginning of the year</b>	<b>514</b>	<b>929</b>	<b>2,320</b>
(Recovery) / provision for impairment during the year	(174)	900	(445)
Amounts written off during the year as uncollectible	(212)	(1,203)	(332)
Transfer from receivable from terminated leases	(20)	(112)	(614)
<b>Provision for impairment at the end of the year</b>	<b>108</b>	<b>514</b>	<b>929</b>

**12 Investments in Finance Lease (Continued)**

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

<i>In thousands of GEL</i>	<b>31 December 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
<i>Current and not impaired</i>			
- Customers with more than two year experience	4,525	3,342	7,471
- New customers	16,802	2,893	2,417
<b>Total current and not impaired</b>	<b>21,327</b>	<b>6,235</b>	<b>9,888</b>
<i>Past due but not impaired</i>			
- Less than 90 days overdue	719	853	2,239
- 180 days to 360 days overdue	41	14	15
<b>Total past due but not impaired</b>	<b>760</b>	<b>867</b>	<b>2,254</b>
<b>Individually impaired gross</b>	<b>-</b>	<b>3,093</b>	<b>2,879</b>
<b>Total investment in finance lease- gross</b>	<b>22,087</b>	<b>10,195</b>	<b>15,021</b>
Impairment loss provision	(108)	(514)	(931)
<b>Total net investment in finance lease</b>	<b>21,979</b>	<b>9,681</b>	<b>14,090</b>

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

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

The effect of collateral at 31 December 2011:

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

The effect of collateral at 31 December 2010:

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



**12 Investments in Finance Lease (Continued)**

The effect of collateral at 31 December 2009:

<i>In thousands of GEL</i>	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	14,286	38,977	735	533
<b>Total</b>	<b>14,286</b>	<b>38,977</b>	<b>735</b>	<b>533</b>

**13 Other Assets**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Inventories of repossessed collateral	82,317	80,228	63,321
Prepayments for other assets	3,350	1,332	1,663
Inventories	2,293	1,646	1,446
Prepaid taxes other than income tax	2,193	5,758	2,096
Prepayments for construction in progress	2,131	396	153
Assets repossessed from terminated leases	867	2,071	-
Prepaid insurance of leasing assets	316	156	-
Assets purchased for leasing purposes	82	1,143	462
Other	104	407	2,681
<b>Total other assets</b>	<b>93,653</b>	<b>93,137</b>	<b>71,822</b>

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

**14 Premises, Equipment and Intangible Assets**

	Note	Premises and leasehold improvements	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
<i>In thousands of GEL</i>							
Cost or valuation at 1 January 2009		91,296	65,487	29,956	<b>186,739</b>	8,028	194,767
Accumulated depreciation/amortisation		(5,490)	(20,747)	-	<b>(26,237)</b>	(2,589)	(28,826)
<b>Carrying amount at 1 January 2009</b>		<b>85,806</b>	<b>44,740</b>	<b>29,956</b>	<b>160,502</b>	<b>5,439</b>	<b>165,941</b>
Additions		811	7,230	2,691	<b>10,732</b>	1,446	<b>12,178</b>
Transfers		11,118	-	(11,118)	-	-	-
Transfers to Investment Property		(3,134)	-	(1,517)	<b>(4,651)</b>	-	<b>(4,651)</b>
Disposals		(758)	(2,637)	-	<b>(3,395)</b>	(166)	<b>(3,561)</b>
Depreciation/amortisation charge		(3,688)	(12,965)	-	<b>(16,653)</b>	(1,630)	<b>(18,283)</b>
Elimination of accumulated depreciation/amortisation on disposals and transfers to investment property		312	1,444	-	<b>1,756</b>	89	<b>1,845</b>
<b>Carrying amount at 31 December 2009</b>		<b>90,467</b>	<b>37,812</b>	<b>20,012</b>	<b>148,291</b>	<b>5,178</b>	<b>153,469</b>
Cost or valuation at 31 December 2009		99,333	70,080	20,012	<b>189,425</b>	9,308	<b>198,733</b>
Accumulated depreciation/amortisation		(8,866)	(32,268)	-	<b>(41,134)</b>	(4,130)	<b>(45,264)</b>
<b>Carrying amount at 31 December 2009</b>		<b>90,467</b>	<b>37,812</b>	<b>20,012</b>	<b>148,291</b>	<b>5,178</b>	<b>153,469</b>
Additions		1,250	7,483	6,450	<b>15,183</b>	1,340	<b>16,523</b>
Transfers		50	-	(50)	-	-	-
Transfers to Investment Property		(310)	-	(2,196)	<b>(2,506)</b>	-	<b>(2,506)</b>
Reclassification to disposal group held for sale		-	(475)	-	<b>(475)</b>	(2,216)	<b>(2,691)</b>
Disposals		-	(3,513)	(157)	<b>(3,670)</b>	(48)	<b>(3,718)</b>
Impairment charge to profit and loss		-	(1,434)	(192)	<b>(1,626)</b>	-	<b>(1,626)</b>
Depreciation/amortisation charge		(4,034)	(8,703)	-	<b>(12,737)</b>	(1,164)	<b>(13,901)</b>
Elimination of accumulated depreciation/amortisation on disposals, and transfers to investment property		199	1,770	-	<b>1,969</b>	470	<b>2,439</b>
<b>Carrying amount at 31 December 2010</b>		<b>87,622</b>	<b>32,940</b>	<b>23,867</b>	<b>144,429</b>	<b>3,560</b>	<b>147,989</b>
Cost or valuation at 31 December 2010		100,323	72,141	23,867	<b>196,331</b>	8,384	<b>204,715</b>
Accumulated depreciation/amortisation including accumulated impairment loss		(12,701)	(39,201)	-	<b>(51,902)</b>	(4,824)	<b>(56,726)</b>
<b>Carrying amount at 31 December 2010</b>		<b>87,622</b>	<b>32,940</b>	<b>23,867</b>	<b>144,429</b>	<b>3,560</b>	<b>147,989</b>
Additions		4,647	11,799	6,870	<b>23,316</b>	4,759	<b>28,075</b>
Transfers		9,122	631	(9,753)	-	-	-
Transfers from Investment Property		3,188	-	-	<b>3,188</b>	-	<b>3,188</b>
Disposals		(786)	(3,339)	(1,392)	<b>(5,517)</b>	(54)	<b>(5,571)</b>
Increase / (decrease) in value on revaluation		1,311	-	(481)	<b>830</b>	-	<b>830</b>
Acquisition of subsidiaries		5,093	1,317	671	<b>7,081</b>	773	<b>7,854</b>
Adjustment due to previous recognition of disposal group held for sale (net of depreciation and amortisation)		-	1,299	-	<b>1,299</b>	2,216	<b>3,515</b>
Depreciation/amortisation charge		(3,898)	(9,587)	-	<b>(13,485)</b>	(1,210)	<b>(14,695)</b>
Elimination of accumulated depreciation/amortisation on disposals, transfers to investment property and reclassification to disposal group held for sale		250	2,488	-	<b>2,738</b>	20	<b>2,758</b>
<b>Carrying amount at 31 December 2011</b>		<b>106,549</b>	<b>37,548</b>	<b>19,782</b>	<b>163,879</b>	<b>10,064</b>	<b>173,943</b>
Cost or valuation at 31 December 2011		124,851	86,677	19,782	<b>231,310</b>	16,272	<b>247,582</b>
Accumulated depreciation/amortisation including accumulated impairment loss		(18,302)	(49,129)	-	<b>(67,431)</b>	(6208)	<b>(73,639)</b>
<b>Carrying amount at 31 December 2011</b>		<b>106,549</b>	<b>37,548</b>	<b>19,782</b>	<b>163,879</b>	<b>10,064</b>	<b>173,943</b>

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

**14 Premises, Equipment and Intangible Assets (Continued)**

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

Premises have been revalued to market value at 30 September 2011. The valuation was carried out by an independent firm of valuers which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was discounted cash flow, integrated cost estimation and sales comparison method. Fair values were estimated using appropriate valuation techniques, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifics of the estimated property.

Management considers that the fair value has not changed significantly between 30 September and 31 December 2011.

At 31 December 2011 the carrying amount of premises would have been GEL 78,071 thousand (2010: GEL 70,220 thousand; 2009: GEL 54,363 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2011 the carrying amount of construction in progress would have been GEL 13,278 thousand (2010: GEL 18,001 thousand; 2009: GEL 14,404 thousand) had the assets been carried at cost less depreciation and impairment loss.

**15 Investment Properties**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Investment properties at cost as at 1 January</b>	<b>27,742</b>	<b>9,785</b>	-
Transfer from property, plant and equipment	-	2,506	4,651
Repossessioned assets from foreclosed loans	8,988	15,936	5,149
Transfer to finance lease	(1,805)	(223)	-
Disposals	(4,389)	-	-
Transfer to property, plant and equipment	(3,188)	-	-
Elimination of depreciation on disposal	127	-	-
Less depreciation charge	(393)	(262)	(15)
<b>Investment properties as at 31 December</b>	<b>27,082</b>	<b>27,742</b>	<b>9,785</b>

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

At 31 December 2011, investment properties comprised of 11 lots (2010: 13 lots) of land and 28 buildings (2010: 25 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 37,966 thousand (2010: GEL 41,914 thousand; 2009: GEL 13,741 thousand). For details behind valuation refer to note 3.

**16 Goodwill**

Movements in goodwill arising on the acquisition of subsidiaries are:

<i>In thousands of GEL</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Carrying amount at 1 January</b>		<b>1,262</b>	<b>1,958</b>	<b>2,020</b>
Addition from acquisition of subsidiary	42	769	-	-
Transfer on de-classification of non-current assets previously held for sale		695	-	-
Transfer to non-current assets held for sale		-	(696)	-
Impairment loss	33	-	-	(62)
<b>Carrying amount at 31 December</b>		<b>2,726</b>	<b>1,262</b>	<b>1,958</b>

**Goodwill Impairment Test**

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
JSC Bank Constanta	769	-	-
JSC United Financial Corporation	695	-	696
LLC TBC Kredit	1,262	1,262	1,262
<b>Total carrying amount of goodwill</b>	<b>2,726</b>	<b>1,262</b>	<b>1,958</b>

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

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

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

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10% higher than Management's estimates, the Group would need to reduce the carrying value of goodwill by GEL 283 thousand (2009: GEL 218 thousand). Had this impairment been recognised, the Group would not be able to reverse any impairment losses that arose on goodwill in subsequent periods even if circumstances improve. Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 391 thousand (2009: impairment loss of GEL 62 thousand was recognised in respect of JSC United Financial Corporation). The CGUs' carrying amount would equal its value in use at a discount rate of 14.01% p.a.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 10% higher than Management's estimates, the Group would need to reduce the carrying value of goodwill by GEL 1,262 thousand and carrying value of net assets by GEL 1,642 thousand (2010: nil; 2009: nil). Had impairment been recognised, the Group would not be able to reverse any impairment losses that arose on goodwill in subsequent periods even if circumstances improve. Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 2,671 thousand (2010: GEL 11,291 thousand; 2009: GEL 56,572 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 10.25% p.a. (2010: 13.98% p.a.; 2009: 42.83% p.a.).

**17 Disposal Group Held for Sale**

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

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<i>Assets of a disposal group held for sale:</i>			
Current income tax prepayment	-	53	-
Deferred income tax asset	-	136	-
Other assets	-	235	-
Intangible assets	-	2,216	-
Premises and equipment	-	475	-
<b>Total non-current assets classified as disposal groups</b>	<b>-</b>	<b>3,115</b>	<b>-</b>

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2010</b>
Other liabilities	-	300	-
<b>Total liabilities directly associated with disposal groups held for sale</b>	<b>-</b>	<b>300</b>	<b>-</b>

**18 Due to Other Banks**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Correspondent accounts and overnight placements of other banks	15,003	3,570	4,939
Term placements of banks and financial institutions	89,470	43,431	22,427
Loans from banks and financial institutions	5,905	761	-
<b>Total due to other banks</b>	<b>110,378</b>	<b>47,762</b>	<b>27,366</b>

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

**19 Customer Accounts**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>State and public organisations</b>			
- Current/settlement accounts	92,367	44,287	24,998
- Term deposits	7,448	5,940	7,708
<b>Other legal entities</b>			
- Current/settlement accounts	517,684	359,854	231,373
- Term deposits	282,875	103,288	56,465
<b>Individuals</b>			
- Current/demand accounts	354,582	350,228	259,114
- Term deposits	744,300	501,755	411,514
<b>Total customer accounts</b>	<b>1,999,256</b>	<b>1,365,352</b>	<b>991,172</b>

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of GEL</i>	<b>2011</b>		<b>2010</b>		<b>2009</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	1,098,882	55%	851,983	62%	670,628	68%
Trade and services	254,717	13%	263,853	19%	143,017	14%
Transport and communication	164,485	8%	11,245	1%	9,999	1%
Construction	140,148	7%	38,555	3%	27,940	3%
Government	61,079	3%	22,115	2%	3,864	0%
Energy	27,410	1%	12,934	1%	4,448	1%
Mining and natural resource processing	8,710	1%	4,709	0%	1,375	0%
Agriculture	1,288	0%	602	0%	98	0%
Other	242,537	12%	159,356	12%	129,803	13%
<b>Total customer accounts</b>	<b>1,999,256</b>	<b>100%</b>	<b>1,365,352</b>	<b>100%</b>	<b>991,172</b>	<b>100%</b>

At 31 December 2011 the Group had 64 customers (2010: 10 customers; 2009: 11 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 615,557 thousand (2010: GEL 75,449 thousand; 2009: GEL 65,157 thousand) or 31% (2010: 9%; 2009: 7%) of total customer accounts.

At 31 December 2011 included in customer accounts are deposits of GEL 16,543 thousand and GEL 31,307 thousand (2010: GEL 9,840 thousand and GEL 87,058 thousand; 2009: GEL 2,435 thousand and GEL 60,685 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 37.

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

**20 Provisions for Liabilities and Charges**

Movements in provisions for liabilities and charges are as follows:

<i>In thousands of GEL</i>	<b>Credit related commitments</b>	<b>Other</b>	<b>Total</b>
<b>Carrying amount at 1 January 2009</b>	<b>5,324</b>	<b>-</b>	<b>5,324</b>
(Recovery) / Additions recorded in profit or loss	(1,535)	1,500	(35)
<b>Carrying amount at 1 January 2010</b>	<b>3,789</b>	<b>1,500</b>	<b>5,289</b>
Additions recorded in profit or loss	1,992	1,100	3,092
Amounts written off during the year	-	(1,500)	<b>(1,500)</b>
<b>Carrying amount at 31 December 2010</b>	<b>5,781</b>	<b>1,100</b>	<b>6,881</b>
Additions recorded in profit or loss	1,353	200	1,553
<b>Carrying amount at 31 December 2011</b>	<b>7,134</b>	<b>1,300</b>	<b>8,434</b>

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

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

**21 Other Financial Liabilities**

Other financial liabilities comprise the following:

<i>In thousands of GEL</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Derivative financial liabilities	38	5,152	300	-
Trade payables		2,210	1,953	4,055
Security deposits for finance lease		1,770	1,073	525
Debit or credit card payables		274	36	928
Other accrued liabilities		1,899	570	217
<b>Total other financial liabilities</b>		<b>11,305</b>	<b>3,932</b>	<b>5,725</b>

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

**22 Other Liabilities**

Other liabilities comprise the following:

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Accrued employee benefit costs	12,978	9,732	2,710
Advances received	1,986	215	17
Liabilities under customer loyalty programme	923	537	-
Taxes payable other than on income	468	7,661	3,376
Other	3,050	1,536	499
<b>Total other liabilities</b>	<b>19,405</b>	<b>19,681</b>	<b>6,602</b>

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

**23 Other Borrowed Funds**

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

<i>In thousands of GEL</i>	Outstanding amount in original currency			Outstanding amount in GEL
	GEL	USD	EUR	
International financial institutions	12,245	89,715	2,411	167,306
Foreign banks and financial institutions	5,941	203,145	206	345,700
Other financial institutions	-	743	1,631	4,766
<b>Total</b>	<b>18,186</b>	<b>293,603</b>	<b>4,248</b>	<b>517,772</b>

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

<i>In thousands of GEL</i>	Outstanding amount in original currency			Outstanding amount in GEL
	GEL	USD	EUR	
International financial institutions	-	64,374	18	114,164
Local banks and financial institutions	55,011	-	-	55,011
Foreign banks and financial institutions	4,398	59,016	-	109,022
Other financial institutions	-	891	480	2,709
<b>Total</b>	<b>59,409</b>	<b>124,281</b>	<b>498</b>	<b>280,906</b>

At 31 December 2009, other borrowed funds comprised the following:

<i>In thousands of GEL</i>	Outstanding amount in original currency		Outstanding amount in GEL
	GEL	USD	
International financial institutions	-	46,626	78,601
Foreign banks and financial institutions	8,742	79,368	142,540
Other financial institutions	-	1,340	2,260
<b>Total</b>	<b>8,742</b>	<b>127,334</b>	<b>223,401</b>

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



**24 Subordinated Debt**

At 31 December 2011, subordinated debt comprised:

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

At 31 December 2010, subordinated debt comprised:

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

**24 Subordinated debt (Continued)**

At 31 December 2009, subordinated debt comprised:

<i>In thousands of GEL</i>	<b>Grant Date</b>	<b>Maturity Date</b>	<b>Outstanding amount in original currency USD</b>	<b>Outstanding amount in GEL</b>
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	30-May-07	15-Apr-14	20,168	34,000
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,594	31,345
International Financial Corporation	23-Apr-09	12-Nov-18	18,543	31,260
Deutsche Investitions und Entwicklungsgesellschaft MBH	24-Feb-06	15-Feb-12	10,489	17,683
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jun-18	10,358	17,462
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,035	11,860
International Financial Corporation	16-Dec-04	15-Dec-11	4,000	6,743
<b>Total subordinated debt</b>			<b>89,187</b>	<b>150,353</b>

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

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

**25 Share Capital**

<i>In thousands of GEL except for number of shares</i>	<b>Number of outstanding shares</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Total</b>
<b>At 1 January 2009</b>	<b>117,000</b>	<b>11,700</b>	<b>138,748</b>	<b>150,448</b>
New shares issued	33,000	3,300	62,700	<b>66,000</b>
Share based payments	-	-	275	<b>275</b>
<b>At 31 December 2009</b>	<b>150,000</b>	<b>15,000</b>	<b>201,723</b>	<b>216,723</b>
New shares issued	1,131	113	-	<b>113</b>
<b>At 31 December 2010</b>	<b>151,131</b>	<b>15,113</b>	<b>201,723</b>	<b>216,836</b>
New shares issued	579	58	1,585	<b>1,643</b>
<b>At 31 December 2011</b>	<b>151,710</b>	<b>15,171</b>	<b>203,308</b>	<b>218,479</b>

The total authorised number of ordinary shares is 151,713 shares (2010: 151,131 shares; 2009: 150,000 shares). All issued ordinary shares are fully paid.

All ordinary shares have a nominal value of GEL 100 per share (2010: GEL 100 per share; 2009: GEL 100 per share) and rank equally. Each share carries one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

At the reporting date the entity also has 2,718 shares reserved for issuance under share based payment arrangement (2010: nil; 2009: 1,133 shares). For share based payments refer to Note 26.

In May 2011 the Bank issued dividends of GEL 82.7 per share (2010: nil; 2009: nil).

**26 Share Based Payments**

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

In May 2011, the board of shareholders and the board of supervisors of the Group resolved to award employees 3,300 options to purchase the Bank's ordinary shares. Each share option converts into one ordinary share of JSC TBC Bank at an exercise price of the Group's book value per share at the reporting date. The fair value of the share options as at the grant date was estimated at GEL 2,837 per share option. The valuation was carried out by an external valuator.

After exercise the shares carry rights to dividends but do not carry voting rights and are restricted to sell before 2014. However, the right to sell the shares will be granted and they will become voting shares before 2014 if:

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

Share options are subject to 2 year vesting period. The fair value of the share options as at the grant date was estimated at GEL 2,837 per share option. Management expenses granted share options over the vesting period within staff costs.

<i>In GEL except for number of share options</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Cumulative number of options outstanding as at the beginning of the year	-	1,133	1,020
Number of options granted during the year	2,758	-	113
Number of options exercised	(579)	(1,133)	-
<b>Cumulative number of options outstanding at the end of the year</b>	<b>2,179</b>	<b>-</b>	<b>1,133</b>
Value at grant date per share option (GEL)	2,836	2,420	2,420
<b>Expense recognised as staff cost during the year (GEL thousand)</b>	<b>8,122</b>	<b>-</b>	<b>273</b>
Number of options exercisable at the beginning of the year	-	1,133	-
Number of share options exercised	579	(1,133)	-
Number of options outstanding at the end of the year	-	-	1,133

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

**27 Earnings per Share**

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

<i>In thousands of GEL except for number of shares</i>	<b>Note</b>	<b>31 December 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Profit for the period attributable to the owners of the Bank		90,898	49,374	2,831
Weighted average number of ordinary shares in issue (thousands)	25	151,343	150,094	138,087
<b>Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)</b>		<b>600.6</b>	<b>329.0</b>	<b>20.5</b>

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

<i>In thousands of GEL except for number of shares</i>	<b>31 December 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Profit for the period attributable to the owners of the Bank	90,898	49,374	2,831
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period (thousands)	151,886	150,637	138,630
<b>Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)</b>	<b>598.5</b>	<b>327.8</b>	<b>20.4</b>

**28 Segment Analysis**

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

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

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

The reportable segments are the same as the operating segments.

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

Segment information for the reportable segments of the Group for the years ended 31 December 2011, 2010 and 2009 is set out below:

<i>In thousands of GEL</i>	<b>Retail</b>	<b>Corporate</b>	<b>SME</b>	<b>Micro</b>	<b>Total</b>
<b>31 December 2011</b>					
External revenues:					
– Interest income on loans and advances to customers	146,621	125,345	30,326	21,214	<b>323,506</b>
– Fee and commission income	24,777	12,249	5,934	842	<b>43,802</b>
– Gains less losses from trading in foreign currencies	6,765	12,478	6,176	-	<b>25,419</b>
<b>Revenue from external customers</b>	<b>178,163</b>	<b>150,072</b>	<b>42,436</b>	<b>22,056</b>	<b>392,727</b>
External Expenses:					
– Interest expense on customer accounts	68,452	32,882	3,566	487	<b>105,387</b>
– Fee and commission expense	10,729	382	467	146	<b>11,724</b>
– Provision for loan impairment	(866)	20,617	(4,148)	446	<b>16,049</b>
– Provision for liabilities and charges	9	1200	144	-	<b>1,353</b>
<b>Expenses from external customers</b>	<b>78,324</b>	<b>55,081</b>	<b>29</b>	<b>1,079</b>	<b>134,513</b>
<b>Adjusted profit before non-segmental income, administrative and other expense and income tax</b>	<b>99,839</b>	<b>94,991</b>	<b>42,407</b>	<b>20,977</b>	<b>258,214</b>
<b>31 December 2011</b>					
Total gross loans and advances to customers reported	809,791	1,003,849	234,831	118,934	<b>2,167,405</b>
Total customer accounts reported	1,086,191	699,590	199,677	13,798	<b>1,999,256</b>
Total guarantees issued	2,062	285,957	34,243	-	<b>322,262</b>

**28 Segment Analysis (Continued)**

<i>In thousands of GELs</i>	<b>Retail</b>	<b>Corporate</b>	<b>SME</b>	<b>Total</b>
<b>31 December 2010</b>				
External revenues:				
– Interest income on loans and advances to customers	122,128	99,399	25,847	<b>247,374</b>
– Fee and commission income	15,934	10,008	4,717	<b>30,659</b>
– Gains less losses from trading in foreign currencies	7,460	9,991	5,352	<b>22,803</b>
<b>Revenue from external customers</b>	<b>145,522</b>	<b>119,398</b>	<b>35,916</b>	<b>300,836</b>
External Expenses:				
– Interest expense on customer accounts	60,592	14,891	2,054	<b>77,537</b>
– Fee and commission expense	6,967	2,988	546	<b>10,501</b>
– Provision for loan impairment	11,526	19,331	463	<b>31,320</b>
– Provision for liabilities and charges	3	1,779	210	<b>1,992</b>
<b>Expenses from external customers</b>	<b>79,088</b>	<b>38,989</b>	<b>3,273</b>	<b>121,350</b>
<b>Adjusted profit before non-segmental income, administrative and other expense and income tax</b>	<b>66,434</b>	<b>80,409</b>	<b>32,643</b>	<b>179,486</b>
<b>31 December 2010</b>				
Total gross loans and advances to customers reported	583,904	811,559	152,946	<b>1,548,409</b>
Total customer accounts reported	851,983	377,085	136,284	<b>1,365,352</b>
Total guarantees issued	240	130,309	15,327	<b>145,876</b>

<i>In thousands of GELs</i>	<b>Retail</b>	<b>Corporate</b>	<b>SME</b>	<b>Total</b>
<b>31 December 2009</b>				
External revenues:				
– Interest income on loans and advances to customers	110,276	97,002	33,325	<b>240,603</b>
– Fee and commission income	14,846	8,397	3,778	<b>27,021</b>
– Gains less losses from trading in foreign currencies	5,293	8,787	3,653	<b>17,733</b>
<b>Revenue from external customers</b>	<b>130,415</b>	<b>114,186</b>	<b>40,756</b>	<b>285,357</b>
External Expenses:				
– Interest expense on customer accounts	46,376	12,411	1,486	<b>60,273</b>
– Fee and commission expense	4,513	2,762	984	<b>8,259</b>
– Provision for loan impairment	48,933	31,977	13,145	<b>94,055</b>
– Provision for liabilities and charges	18	1,324	193	<b>1,535</b>
<b>Expenses from external customers</b>	<b>99,840</b>	<b>48,474</b>	<b>15,808</b>	<b>164,122</b>
<b>Adjusted profit before non-segmental income, administrative and other expense and income tax</b>	<b>30,575</b>	<b>65,712</b>	<b>24,948</b>	<b>121,235</b>
<b>31 December 2009</b>				
Total gross loans and advances to customers reported	412,980	602,579	153,818	<b>1,169,377</b>
Total customer accounts reported	670,628	229,339	91,205	<b>991,172</b>
Total guarantees issued	1,076	77,799	11,348	<b>90,223</b>

**28 Segment Analysis (Continued)**

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

<i>In thousands of GEL</i>	<b>31 December 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
<b>Adjusted profit before non-segmental income, administrative and other expense and income tax</b>	<b>258,214</b>	<b>179,486</b>	<b>121,235</b>
<i>Non-segmental interest income</i>	36,709	24,431	24,331
<i>Non-segmental interest expense</i>	(45,747)	(31,454)	(42,419)
<i>Non-segmental net fee and commission expense</i>	(3,370)	(1,104)	(768)
<i>Non-segmental (provision for) / recovery of liabilities and charges</i>	(200)	(1,100)	1,570
Net losses from derivative financial instruments	(4,987)	(300)	60
Foreign exchange translation gains less losses / (losses less gains)	394	(664)	274
Losses on initial recognition of assets at rates below market	-	-	(3,365)
Recovery of impairment / (impairment) of investment securities available for sale	116	(173)	(257)
(Losses) / Gains from disposal of investment securities available for sale	-	(166)	7,920
Recovery of impairment of investments in finance lease	174	(900)	445
(Provision for) / recovery of impairment of other financial assets	(397)	(713)	(179)
Recovery of impairment / (impairment) for assets classified as held for sale	1,519	(1,519)	-
Other operating income	9,923	8,972	8,662
Staff costs	(78,426)	(57,146)	(48,870)
Depreciation and amortisation	(15,088)	(14,162)	(18,298)
Administrative and other operating expenses	(51,744)	(47,276)	(46,385)
<b>Profit before income tax from continuing operations</b>	<b>107,090</b>	<b>56,212</b>	<b>3,956</b>

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

<i>In thousands of GEL</i>	<b>31 December 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Total segment assets (loans and advances to customers)	2,008,745	1,380,955	988,428
Cash and cash equivalents	374,153	275,425	332,848
Due from other banks	291,009	74,736	37,249
Investment securities available for sale	266,436	216,323	3,619
Current income tax prepayment	-	2,500	2,193
Investment securities held to maturity	28,956	28,986	115,496
Other financial assets	11,339	5,930	7,063
Investments in finance leases	21,979	9,681	14,090
Other assets	93,653	93,137	71,822
Premises and equipment	163,879	144,429	148,291
Intangible assets	10,064	3,560	5,178
Investment properties	27,082	27,742	9,785
Goodwill	2,726	1,262	1,958
Assets of disposal group classified as held for sale	-	3,115	-
<b>Total assets per statement of financial position</b>	<b>3,300,021</b>	<b>2,267,781</b>	<b>1,738,020</b>

**28 Segment Analysis (Continued)**

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

<i>In thousands of GEL</i>	<b>31 December 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Total segment liabilities (customer accounts)	1,999,256	1,365,352	991,172
Due to other banks	110,378	47,762	27,366
Other borrowed funds	517,772	280,906	223,401
Current income tax liability	14,162	-	-
Deferred income tax liability	8,048	7,294	1,369
Provisions for liabilities and charges	8,434	6,881	5,289
Other financial liabilities	11,305	3,932	5,725
Other liabilities	19,405	19,681	6,602
Subordinated debt	142,480	158,401	150,353
Liabilities of disposal group classified as held for sale	-	300	-
<b>Total liabilities per statement of financial position</b>	<b>2,831,240</b>	<b>1,890,509</b>	<b>1,411,277</b>

**29 Other Reserves**

	Revaluation reserve for		Cumulative	Total
	Premises	Available for	currency	other
		sale	translation	reserves
		securities	reserve	
<i>In thousands of GEL</i>				
<b>At 1 January 2009</b>	<b>29,013</b>	<b>1,335</b>	<b>2,439</b>	<b>32,787</b>
Fair value of investments available for sale	-	1,072	-	1,072
Realised revaluation reserve	-	(788)	-	(788)
Currency translation	-	-	(224)	(224)
Income tax effects	-	(41)	-	(41)
<b>At 31 December 2009</b>	<b>29,013</b>	<b>1,578</b>	<b>2,215</b>	<b>32,806</b>
Fair value of investments available for sale	-	(286)	-	(286)
Realised revaluation reserve	(2,129)	-	-	(2,129)
Currency translation	-	-	1,062	1,062
Income tax effects	319	41	-	360
<b>At 31 December 2010</b>	<b>27,203</b>	<b>1,333</b>	<b>3,277</b>	<b>31,813</b>
Fair value of investments available for sale	-	1,277	-	1,277
Revaluation reserve	1,311	-	-	1,311
Currency translation	-	-	(904)	(904)
Income tax effects	(245)	(90)	-	(335)
<b>At 31 December 2011</b>	<b>28,269</b>	<b>2,520</b>	<b>2,373</b>	<b>33,162</b>

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



**30 Interest Income and Expense**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Interest income</b>			
Loans and advances to customers	323,506	247,289	240,603
Investment securities available for sale (Note 9)	23,253	10,317	-
Due from other banks	6,113	8,766	2,983
Investment securities held to maturity (Note 10)	3,642	1,577	15,442
Investments in leases	3,438	3,856	5,904
Other	263	-	2
<b>Total interest income</b>	<b>360,215</b>	<b>271,805</b>	<b>264,934</b>
<b>Interest expense</b>			
Customer accounts	105,387	77,537	60,273
Other borrowed funds	28,181	14,117	26,809
Subordinated debt	14,497	15,437	12,875
Due to other banks	3,031	1,812	2,735
Other	38	88	-
<b>Total interest expense</b>	<b>151,134</b>	<b>108,991</b>	<b>102,692</b>
<b>Net interest income</b>	<b>209,081</b>	<b>162,814</b>	<b>162,242</b>

**31 Fee and Commission Income and Expense**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Fee and commission income</b>			
<i>Fee and commission income in respect of financial instruments not at fair value through profit or loss:</i>			
- Plastic card operations	19,337	11,436	10,145
- Guarantees issued	8,167	6,647	5,603
- Settlement transactions	7,638	6,162	5,615
- Cash transactions	4,111	3,916	3,392
- Foreign exchange operations	1,296	1,098	479
- Issuance of letters of credit	1,056	282	810
- Other	2,197	1,118	977
<b>Total fee and commission income</b>	<b>43,802</b>	<b>30,659</b>	<b>27,021</b>
<b>Fee and commission expense</b>			
<i>Fee and commission expense in respect of financial instruments not at fair value through profit or loss:</i>			
- Plastic card operations	6,500	3,671	2,279
- Guarantees received	4,752	4,682	4,585
- Settlement transactions	1,477	916	1,770
- Cash transactions	521	244	135
- Foreign exchange operations	28	67	12
- Other	1,816	2,025	246
<b>Total fee and commission expense</b>	<b>15,094</b>	<b>11,605</b>	<b>9,027</b>
<b>Net fee and commission income</b>	<b>28,708</b>	<b>19,054</b>	<b>17,994</b>

**32 Other Operating Income**

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Revenues from sales of pay-box terminals	3,094	1,722	-
Revenues from operational leasing	2,876	1,804	144
Revenues from non-credit related fines	1,610	461	800
Administrative fee income from international financial institutions	799	1,040	1,291
Gain on disposal of premises and equipment	688	-	304
Net gain on terminated finance lease contracts	218	815	2,672
Fee income for temporary retention of repossessed collateral	-	1,887	-
Gain from sale of associate	-	-	1,658
Other	638	1,243	1,793
<b>Total other operating income</b>	<b>9,923</b>	<b>8,972</b>	<b>8,662</b>

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

**33 Administrative and Other Operating Expenses**

<i>In thousands of GEL</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Advertising and marketing services		10,014	4,794	7,099
Occupancy and rent		8,429	6,810	7,101
Professional services		7,932	6,352	9,489
Communications and supply		2,566	2,371	3,061
Taxes other than on income		2,435	1,519	1,720
Utility services		2,381	2,011	2,192
Stationery and other office expenses		1,790	1,056	955
Intangible asset maintenance		1,590	843	-
Transportation and vehicle maintenance		1,518	1,008	1,230
Insurance		1,366	1,400	1,753
Security services		1,327	858	1,527
Write-down of current assets to fair value less costs to sell		1,281	9,394	-
Charity		982	694	4,007
Premises and equipment maintenance		971	1,759	2,452
Business trip expenses		753	423	311
Personal training and recruitment		722	209	230
Loss on disposal of premises and equipment		-	1,256	-
Impairment of goodwill	16	-	-	62
Other		5,687	4,519	3,196
<b>Total administrative and other operating expenses</b>		<b>51,744</b>	<b>47,276</b>	<b>46,385</b>

**34 Income Taxes**

Income tax expense comprises the following:

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Current tax charge	14,904	628	1,109
Deferred tax charge / (credit)	561	6,149	(113)
<b>Income tax expense for the year</b>	<b>15,465</b>	<b>6,777</b>	<b>996</b>

The income tax rate applicable to the majority of the Group's income is 15% (2010: 15%; 2009: 15%). The income tax rate applicable to the majority of subsidiaries income ranges from 15% to 20% (2010: 15% - 20%; 2009: 15% - 20%).

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Profit before tax from continuing operations</b>	<b>107,090</b>	<b>56,212</b>	<b>3,956</b>
Theoretical tax charge at statutory rate (2011: 15%; 2010: 15%; 2009: 15%)	16,064	8,432	593
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income which is exempt from taxation	(4,012)	(1,995)	-
- Non deductible expenses and other differences	3,413	340	403
<b>Income tax expense for the year</b>	<b>15,465</b>	<b>6,777</b>	<b>996</b>

**34 Income Taxes (Continued)**

Differences between IFRS and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2010: 15%; 2009: 15%) for Georgia and 20% for Azerbaijan (2010: 20%; 2009: 20%).

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

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

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

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

**34 Income Taxes (Continued)**

	31 December 2008	(Charged)/ credited to profit or loss	(Charged) / credited directly to other comprehensive income	31 December 2009
<i>In thousands of GEL</i>				
<b>Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards</b>				
Premises and equipment	(19,159)	933	-	(18,226)
Loan impairment provision	3,022	1,914	-	4,936
Fair valuation of investment securities available for sale	(235)	-	(41)	(276)
Tax loss carry forwards	16,354	(3,462)	-	12,892
Other assets	104	27	-	131
Investment in leases	-	78	-	78
Investment property	-	(614)	-	(614)
Other liabilities	(1,527)	1,237	-	(290)
<b>Net deferred tax asset/(liability)</b>	<b>(1,441)</b>	<b>113</b>	<b>(41)</b>	<b>(1,369)</b>

**35 Financial Risk Management**

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

**Credit risk.** The Group takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

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

The Group's credit risk management strategy includes: (i) Risk tolerance according to significant concentrations such as: segments, industries, products, client groups and non secured loans, (ii) The analysis of the credit market and Credit policy and (iii) Target market within each segment, products and pricing.

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

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

The Credit Risk Management Department analyses trends of the portfolio on a monthly basis, including total credit portfolio exposure, concentrations, maturities, volumes and performance of non-performing loans, write-offs and recoveries, and presents its findings to the Management Board. Furthermore, reports relating to the credit quality of the credit portfolio are presented to the Supervisory Board on a quarterly basis. The Group's credit risk management department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 7.

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

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

Primary factor when assessing credit risk of counterparty is fair value of collateral thereof. Management also considers other factors namely, profitability of operations, business plans and credit history.

**35 Financial Risk Management (Continued)**

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

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

<i>In thousands of GEL</i>	<b>Georgia</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	246,023	123,054	5,076	<b>374,153</b>
Due from other banks	290,074	935	-	<b>291,009</b>
Loans and advances to customers	1,963,564	-	45,181	<b>2,008,745</b>
Investment securities available for sale	266,436	-	-	<b>266,436</b>
Investment securities held to maturity	28,956	-	-	<b>28,956</b>
Investments in leases	21,979	-	-	<b>21,979</b>
Other financial assets	11,339	-	-	<b>11,339</b>
<b>Total financial assets</b>	<b>2,828,371</b>	<b>123,989</b>	<b>50,257</b>	<b>3,002,617</b>
<b>Non-financial assets</b>	<b>296,310</b>	<b>36</b>	<b>1,058</b>	<b>297,404</b>
<b>Total assets</b>	<b>3,124,681</b>	<b>124,025</b>	<b>51,315</b>	<b>3,300,021</b>
<b>Liabilities</b>				
Due to other banks	85,698	-	24,680	<b>110,378</b>
Customer accounts	1,916,520	82,654	82	<b>1,999,256</b>
Other borrowed funds	77,770	409,277	30,725	<b>517,772</b>
Other financial liabilities	5,603	5,420	282	<b>11,305</b>
Subordinated debt	-	142,480	-	<b>142,480</b>
<b>Total financial liabilities</b>	<b>2,085,591</b>	<b>639,831</b>	<b>55,769</b>	<b>2,781,191</b>
<b>Non-financial liabilities</b>	<b>49,502</b>	<b>7</b>	<b>540</b>	<b>50,049</b>
<b>Total liabilities</b>	<b>2,135,093</b>	<b>639,838</b>	<b>56,309</b>	<b>2,831,240</b>
<b>Net balance sheet position</b>	<b>989,588</b>	<b>(515,813)</b>	<b>(4,994)</b>	<b>469,738</b>
<b>Credit related commitments</b>	<b>580,274</b>	<b>-</b>	<b>-</b>	<b>580,274</b>

**35 Financial Risk Management (Continued)**

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

<i>In thousands of GEL</i>	<b>Georgia</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	147,513	119,941	7,971	<b>275,425</b>
Due from other banks	59,471	1,153	14,112	<b>74,736</b>
Loans and advances to customers	1,347,189	-	33,766	<b>1,380,955</b>
Investment securities available for sale	216,323	-	-	<b>216,323</b>
Investment securities held to maturity	28,986	-	-	<b>28,986</b>
Investments in leases	9,681	-	-	<b>9,681</b>
Other financial assets	5,930	-	-	<b>5,930</b>
<b>Total financial assets</b>	<b>1,815,093</b>	<b>121,094</b>	<b>55,849</b>	<b>1,992,036</b>
<b>Non-financial assets</b>	<b>275,745</b>	<b>-</b>	<b>-</b>	<b>275,745</b>
<b>Total assets</b>	<b>2,090,838</b>	<b>121,094</b>	<b>55,849</b>	<b>2,267,781</b>
<b>Liabilities</b>				
Due to other banks	45,410	-	2,352	<b>47,762</b>
Customer accounts	1,365,352	-	-	<b>1,365,352</b>
Other borrowed funds	127,436	151,216	2,254	<b>280,906</b>
Other financial liabilities	3,932	-	-	<b>3,932</b>
Subordinated debt	-	158,401	-	<b>158,401</b>
<b>Total financial liabilities</b>	<b>1,542,130</b>	<b>309,617</b>	<b>4,606</b>	<b>1,856,353</b>
<b>Non-financial liabilities</b>	<b>34,156</b>	<b>-</b>	<b>-</b>	<b>34,156</b>
<b>Total liabilities</b>	<b>1,576,286</b>	<b>309,617</b>	<b>4,606</b>	<b>1,890,509</b>
<b>Net balance sheet position</b>	<b>514,552</b>	<b>(188,523)</b>	<b>51,243</b>	<b>377,272</b>
<b>Credit related commitments</b>	<b>257,802</b>	<b>-</b>	<b>-</b>	<b>257,802</b>



**35 Financial Risk Management (Continued)**

The geographical concentration of the Group's assets and liabilities at 31 December 2009 is set out below:

<i>In thousands of GEL</i>	<b>Georgia</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	161,907	169,818	1,123	<b>332,848</b>
Due from other banks	36,655	594	-	<b>37,249</b>
Loans and advances to customers	988,428	-	-	<b>988,428</b>
Investment securities available for sale	3,619	-	-	<b>3,619</b>
Investment securities held to maturity	115,496	-	-	<b>115,496</b>
Investments in leases	14,090	-	-	<b>14,090</b>
Other financial assets	7,063	-	-	<b>7,063</b>
<b>Total financial assets</b>	<b>1,327,258</b>	<b>170,412</b>	<b>1,123</b>	<b>1,498,793</b>
<b>Non-financial assets</b>	<b>239,227</b>	<b>-</b>	<b>-</b>	<b>239,227</b>
<b>Total assets</b>	<b>1,566,485</b>	<b>170,412</b>	<b>1,123</b>	<b>1,738,020</b>
<b>Liabilities</b>				
Due to other banks	27,366	-	-	<b>27,366</b>
Customer accounts	991,172	-	-	<b>991,172</b>
Other borrowed funds	88,855	129,981	4,565	<b>223,401</b>
Other financial liabilities	5,725	-	-	<b>5,725</b>
Subordinated debt	-	150,353	-	<b>150,353</b>
<b>Total financial liabilities</b>	<b>1,113,118</b>	<b>280,334</b>	<b>4,565</b>	<b>1,398,017</b>
<b>Non-financial liabilities</b>	<b>13,260</b>	<b>-</b>	<b>-</b>	<b>13,260</b>
<b>Total liabilities</b>	<b>1,126,378</b>	<b>280,334</b>	<b>4,565</b>	<b>1,411,277</b>
<b>Net balance sheet position</b>	<b>440,107</b>	<b>(109,922)</b>	<b>(3,442)</b>	<b>326,743</b>
<b>Credit related commitments</b>	<b>151,841</b>	<b>-</b>	<b>-</b>	<b>151,841</b>

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

**Currency risk.** Currency risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain such positions within 20% of the Bank's regulatory capital. As at 31 December 2011, the Bank maintained a balance sheet open currency position of 0.03% of regulatory capital and an aggregate open currency position of 1.6% of regulatory capital. The ALCO has set limits on the level of exposure by currency as well as on aggregate exposure for both overnight and intra-day positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

**35 Financial Risk Management (Continued)**

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

	At 31 December 2011			
	Monetary financial assets	Monetary financial liabilities	Deri- vatives	Net balance sheet position
<i>In thousands of GEL</i>				
Georgian Lari	829,932	616,346	8,406	<b>221,992</b>
US Dollars	1,861,326	1,826,247	(53,967)	<b>(18,888)</b>
Euros	244,902	258,868	13,617	<b>(349)</b>
Other	66,457	79,730	32,109	<b>18,836</b>
<b>Total</b>	<b>3,002,617</b>	<b>2,781,191</b>	<b>165</b>	<b>221,591</b>

	At 31 December 2010				At 31 December 2009			
	Monetary financial assets	Monetary financial liabilities	Deri- vatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Deri- vatives	Net balance sheet position
<i>In thousands of GEL</i>								
Georgian Lari	564,048	467,570	364	<b>96,842</b>	356,124	290,798	(12,039)	<b>53,287</b>
US Dollars	1,214,034	1,187,328	(664)	<b>26,042</b>	949,985	926,366	12,099	<b>35,718</b>
Euros	186,447	186,821	-	<b>(374)</b>	177,280	177,577	-	<b>(297)</b>
Other	27,507	14,634	-	<b>12,873</b>	15,404	3,276	-	<b>12,128</b>
<b>Total</b>	<b>1,992,036</b>	<b>1,856,353</b>	<b>(300)</b>	<b>135,383</b>	<b>1,498,793</b>	<b>1,398,017</b>	<b>60</b>	<b>100,836</b>

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

To assess the Group's currency risk, a Value at Risk (VaR) analysis is performed on a monthly basis at 99.5% Confidence Interval. The holding period is determined to be one month and the look-back period is three years. As at 31 December 2011 VAR amounted to GEL 482 (2010: GEL 2,118; 2009: GEL 2,209). During 2011, 2010 and 2009 sensitivity analysis did not reveal significant potential effect on the Group Equity.

**35 Financial Risk Management (Continued)**

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

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

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

<i>In thousands of GEL</i>	<b>Less than 1 year</b>	<b>More than 1 year</b>	<b>Total</b>
<b>31 December 2011</b>			
Total financial assets	1,580,289	1,422,328	<b>3,002,617</b>
Total financial liabilities	1,896,863	884,328	<b>2,781,191</b>
<b>Net interest sensitivity gap at 31 December 2011</b>	<b>(316,574)</b>	<b>538,000</b>	<b>221,426</b>
<b>31 December 2010</b>			
Total financial assets	1,159,183	832,853	<b>1,992,036</b>
Total financial liabilities	1,474,335	382,018	<b>1,856,353</b>
<b>Net interest sensitivity gap at 31 December 2010</b>	<b>(315,152)</b>	<b>450,835</b>	<b>135,683</b>
<b>31 December 2009</b>			
Total financial assets	947,114	551,679	<b>1,498,793</b>
Total financial liabilities	1,066,379	331,638	<b>1,398,017</b>
<b>Net interest sensitivity gap at 31 December 2009</b>	<b>(119,265)</b>	<b>220,041</b>	<b>100,776</b>

At 31 December 2011, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 1,583 thousand (2010: GEL 1,576 thousand; 2009: GEL 596 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 1,583 thousand (2010: GEL 1,576 thousand; 2009: GEL 596 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

During 2011, 2010 and 2009 sensitivity analysis did not reveal significant potential effect on the Group Equity.

**35 Financial Risk Management (Continued)**

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

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

- To ensure the availability of funds in order to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price;
- To recognize the structural mismatch that exists within the Group's consolidated statement of financial position and set monitoring ratios to manage funding in line with well balanced growth
- To meet qualitative and quantitative regulatory requirements for the management of liquidity risk

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

The model requires:

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

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

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

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

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

The Bank calculates liquidity ratio on a daily basis in accordance with the requirement of NBG. The limit is defined by NBG for average liquidity ratio calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions with residual maturity up to 6 months and off-balance sheet liabilities up to 6 months; The ratio was 33.54% at 31 December 2011 (2010: 32.77%, 2009: 39.76%), well above the prudential limit set by NBG.

**35 Financial Risk Management (Continued)**

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

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

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

The table below summarizes the maturity analysis of the Group's financial liabilities as at 31 December 2011 based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
<i>In thousands of GEL</i>					
<b>Liabilities</b>					
Due to other banks	58,694	57,739	-	-	116,433
Customer accounts – individuals	528,762	457,578	166,794	6,737	1,159,871
Customer accounts – other	677,435	76,376	167,640	5,675	927,126
Other financial liabilities	6,582	1,382	3,414	358	11,736
Other borrowed funds	138,899	168,262	225,539	64,497	597,197
Subordinated debt	19,318	21,870	109,269	59,874	210,331
Gross settled forwards	61,964	-	-	-	61,964
Financial guarantees	99,894	171,318	81,086	48,040	400,338
Other credit related commitments	199,055	-	-	-	199,055
<b>Total potential future payments for financial obligations</b>	<b>1,790,603</b>	<b>954,525</b>	<b>753,742</b>	<b>185,181</b>	<b>3,684,051</b>

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

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

**35 Financial Risk Management (Continued)**

The maturity analysis of financial liabilities at 31 December 2009 is as follows:

<i>In thousands of GEL</i>	<b>Less than 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>					
Due to other banks	21,307	5,177	876	2,448	<b>29,808</b>
Customer accounts – individuals	382,959	108,230	165,123	29,811	<b>686,123</b>
Customer accounts – other	281,920	21,806	13,524	3,629	<b>320,879</b>
Other financial liabilities	11,297	-	-	-	<b>11,297</b>
Other borrowed funds	15,351	66,204	174,645	8,145	<b>264,345</b>
Subordinated debt	3,969	15,094	128,142	98,276	<b>245,481</b>
Gross settled forwards	18,526	-	-	-	<b>18,526</b>
Financial guarantees	17,860	43,910	10,876	78	<b>72,724</b>
Other credit related commitments	65,385	-	-	-	<b>65,385</b>
<b>Total potential future payments for financial obligations</b>	<b>818,574</b>	<b>260,421</b>	<b>493,186</b>	<b>142,387</b>	<b>1,714,568</b>

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

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

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

**35 Financial Risk Management (Continued)**

The expected gap may be summarised as follows at 31 December 2011:

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

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

**35 Risk Management (Continued)**

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

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



The analysis by expected maturities may be summarised as follows at 31 December 2009:

<i>In thousands of GEL</i>	<b>Less than 3 months</b>	<b>From 3 to 12 months</b>	<b>Over 1 years</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	332,848	-	-	<b>332,848</b>
Due from other banks	35,733	1,516	-	<b>37,249</b>
Loans and advances to customers	200,445	243,947	544,036	<b>988,428</b>
Investment securities available for sale	3,619	-	-	<b>3,619</b>
Investment securities held to maturity	80,016	35,480	-	<b>115,496</b>
Finance lease receivables	1,862	4,478	7,750	<b>14,090</b>
Other financial assets	7,063	-	-	<b>7,063</b>
<b>Total financial assets</b>	<b>661,586</b>	<b>285,421</b>	<b>551,786</b>	<b>1,498,793</b>
<b>Liabilities</b>				
Due to other banks	21,307	2,735	3,324	<b>27,366</b>
Customer accounts	123,897	34,691	832,584	<b>991,172</b>
Other borrowed funds	12,050	56,313	155,038	<b>223,401</b>
Other financial liabilities	5,725	-	-	<b>5,725</b>
Subordinated debt	2,105	-	148,248	<b>150,353</b>
<b>Total financial liabilities</b>	<b>165,084</b>	<b>93,739</b>	<b>1,139,194</b>	<b>1,398,017</b>
<b>Credit related commitments</b>				
Financial guarantees	3,789	-	-	<b>3,789</b>
Other credit related commitments	-	-	-	<b>-</b>
<b>Total credit related commitments</b>	<b>3,789</b>	<b>-</b>	<b>-</b>	<b>3,789</b>
<b>Net liquidity gap at 31 December 2009</b>	<b>492,713</b>	<b>191,682</b>	<b>(587,408)</b>	<b>96,987</b>
<b>Cumulative gap at 31 December 2009</b>	<b>496,502</b>	<b>684,395</b>	<b>96,987</b>	

**35 Financial Risk Management (Continued)**

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

In 2009, the Management of the Group obtained a stand-by credit facility amounting to GEL 95,731 thousand from International Financial Institutions, which can be accessed to meet liquidity needs within less than one month period. This resource was utilised in February 2011 and is not reflected in the above table for the years ended 31 December 2009 and 2010.

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

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

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

**36 Management of Capital**

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

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Share capital	224,659	216,836	216,723
Retained earnings and other disclosed reserves	222,985	108,940	65,836
General loan loss provisions (up to 1.25 % of risk – weighted assets)	42,172	23,776	14,644
Less intangible assets	(6,380)	(3,375)	(3,728)
Less Investments into subsidiary companies and capital of other banks	(70,764)	(46,913)	(20,000)
Subordinated debt (included in regulatory capital)	79,239	104,099	116,388
<b>Total regulatory capital</b>	<b>491,911</b>	<b>403,363</b>	<b>389,863</b>

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Tier 1 capital</b>			
Share capital	218,479	216,836	216,723
Retained earnings and disclosed reserves	207,454	123,423	71,920
Less: Goodwill	(2,726)	(1,262)	(1,957)
Non-controlling interest	9,134	5,200	5,294
<b>Total tier 1 capital</b>	<b>432,341</b>	<b>344,197</b>	<b>291,980</b>
<b>Tier 2 capital</b>			
Revaluation reserves	33,162	31,816	32,806
General reserve	31,841	21,872	14,644
Subordinated debt (included in tier 2 capital)	79,239	104,099	116,388
<b>Total tier 2 capital</b>	<b>144,242</b>	<b>157,787</b>	<b>163,838</b>
<b>Total capital</b>	<b>576,583</b>	<b>501,984</b>	<b>455,818</b>

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

- IFRS provisions created on loans without impairment trigger event
- 2% of loans without impairment trigger event
- 1.25% of total RWA (Risk Weighted Assets)

The Bank has complied with all externally imposed capital requirements throughout 2011 and 2010. The Bank had not complied with all externally imposed capital requirements throughout 2008, but the Bank was able to obtain necessary waivers from NBG in 2009 and is in compliance with externally imposed capital requirements since the capital increase in April 2009.

### **37 Contingencies and Commitments**

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

**Tax legislation.** Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the period of review. To respond to the risks, the Bank has engaged external tax specialists who are performing periodic reviews of Bank's taxation policies and tax filings, consequently the Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, and customs positions will be sustained. Accordingly, as at 31 December 2011, 2010 and 2009 no provision for potential tax liabilities has been recorded.

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Not later than 1 year	395	-	12
Later than 1 year and not later than 5 years	95	667	983
Later than 5 years	167	492	488
<b>Total operating lease commitments</b>	<b>657</b>	<b>1,159</b>	<b>1,483</b>

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 31 December 2011, 2010 and 2009.

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

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

**Capital expenditure commitments.** At 31 December 2011, the Group has contractual capital expenditure commitments in respect of premises and equipment totalling GEL 1,290 thousand (2010: nil).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

**37 Contingencies and Commitments (Continued)**

Outstanding credit related commitments are as follows:

<i>In thousands of GEL</i>	<b>Not e</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Guarantees issued		322,263	145,877	90,203
Undrawn credit lines		199,054	99,329	64,752
Letters of credit		66,091	18,377	675
<b>Total credit related commitments (before provision)</b>		<b>587,408</b>	<b>263,583</b>	<b>155,630</b>
Less: Provision for credit related commitments		(7,134)	(5,781)	(3,789)
<b>Total credit related commitments</b>		<b>580,274</b>	<b>257,802</b>	<b>151,841</b>

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Binding undrawn credit lines as at 31 December 2011 composed GEL 101,301 thousand (2010: GEL 19,361 thousand; 2009: nil). Fair value of credit related commitments was GEL 7,134 thousand at 31 December 2011 (2010: GEL 5,781 thousand; 2009: GEL 3,789 thousand). Credit related commitments are denominated in currencies as follows:

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Georgian Lari	164,997	62,907	61,316
US Dollars	318,830	158,436	73,972
Euro	42,509	28,522	18,567
Other	61,072	13,718	1,775
<b>Total</b>	<b>587,408</b>	<b>263,583</b>	<b>155,630</b>

**38 Derivative Financial Instruments**

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

<i>In thousands of GEL</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Fair value of foreign exchange forwards	165	(300)	60
Fair value of Interest rate swaps	(5,152)	-	-
<b>Total</b>	<b>(4,987)</b>	<b>(300)</b>	<b>60</b>

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

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

	<b>2011</b>		<b>2010</b>		<b>2009</b>	
<i>In thousands of GEL</i>	<b>Contracts with positive fair value</b>	<b>Contracts with negative fair value</b>	<b>Contracts with positive fair value</b>	<b>Contracts with negative fair value</b>	<b>Contracts with positive fair value</b>	<b>Contracts with negative fair value</b>
<b>Foreign exchange forwards: fair values, at the balance sheet date, of</b>						
- USD payable on settlement (-)		(53,967)	-	(664)	-	-
- USD receivable on settlement (+)			-	-	12,099	-
- GEL payable on settlement (-)			-	-	-	(12,039)
- GEL receivable on settlement (+)	8,407		364	-	-	-
- EUR payable on settlement (-)			-	-	-	-
- EUR receivable on settlement (+)	13,617		-	-	-	-
- Other payable on settlement (-)			-	-	-	-
- Other receivable on settlement (+)	32,109		-	-	-	-
<b>Fair value of foreign exchange forwards</b>	<b>54,133</b>	<b>(53,967)</b>	<b>364</b>	<b>(664)</b>	<b>12,099</b>	<b>(12,039)</b>
<b>Net fair value of foreign exchange forwards</b>	<b>165</b>	<b>-</b>	<b>-</b>	<b>(300)</b>	<b>60</b>	<b>-</b>

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

Information on related party balances is disclosed in Note 41.

**39 Fair Value of Financial Instruments****(a) Fair values of financial instruments carried at amortised cost.**

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

<i>In thousands of GEL</i>	2011		2010		2009	
	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value
<b>FINANCIAL ASSETS</b>						
Cash and cash equivalents	374,153	374,153	275,425	275,425	332,848	332,848
Due from other banks	291,009	291,009	74,736	74,736	37,249	37,249
Loans and advances to customers:						
- Corporate loans	1,033,975	889,743	588,910	634,913	427,185	457,264
- Consumer loans	367,702	355,718	243,267	265,077	168,849	183,451
- Mortgage loans	365,919	359,491	230,286	241,679	154,584	166,512
- Small and micro loans	221,899	229,257	189,569	199,757	135,833	147,390
- Others	56,412	56,412	39,529	39,529	33,811	33,811
- Micro	117,402	118,124	-	-	-	-
Investment securities held to maturity	29,677	28,956	29,224	28,986	115,496	115,496
Investments in leases	21,979	21,979	9,681	9,681	14,090	14,090
Other financial assets	11,339	11,339	5,930	5,930	7,063	7,063
<b>TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST</b>	<b>2,891,466</b>	<b>2,736,181</b>	<b>1,686,557</b>	<b>1,775,713</b>	<b>1,427,008</b>	<b>1,495,174</b>
<b>FINANCIAL LIABILITIES</b>						
Due to other banks	110,378	110,378	47,762	47,762	27,366	27,366
Customer accounts	1,999,256	1,999,256	1,365,352	1,365,352	991,172	991,172
Other financial liabilities	11,305	11,305	3,932	3,932	5,725	5,725
Other borrowed funds	517,772	517,772	280,906	280,906	223,401	223,401
Subordinated debt	142,480	142,480	158,401	158,401	150,353	150,353
<b>TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST</b>	<b>2,781,191</b>	<b>2,781,191</b>	<b>1,856,353</b>	<b>1,856,353</b>	<b>1,398,017</b>	<b>1,398,017</b>

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

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

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

**39 Fair Value of Financial Instruments (Continued)**

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

	2011		2010		2009
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Quoted price in an active market (Level 1)
<i>In thousands of Russian Roubles</i>					
<b>FINANCIAL ASSETS</b>					
<b><i>Investment securities available for sale</i></b>					
- Certificates of Deposits of National Bank of Georgia	168,537	-	126,148	-	-
- Ministry of Finance Treasury Bills	61,014	-	86,841	-	-
- Government notes	32,942	-	-	-	-
- Corporate shares (Visa Inc)	2,131	-	1,568	-	1,853
<b>TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE</b>	<b>264,624</b>	<b>-</b>	<b>214,557</b>	<b>-</b>	<b>1,853</b>
- Derivative financial liabilities	-	5,152	-	300	-
<b>TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE</b>	<b>-</b>	<b>5,152</b>	<b>-</b>	<b>300</b>	<b>-</b>

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

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

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

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

	2011	2010	2009
<b><i>Due from other banks</i></b>	2%	2%	2%
<b><i>Loans and advances to customers</i></b>			
Corporate loans	14%	21%	21%
Consumer loans	23%	26%	28%
Mortgage loans	14%	21%	21%
Loans to small and medium enterprises	15%	20%	24%
Micro loans	33%	-	-
<b><i>Investment securities held to maturity</i></b>	13%	14%	4%
<b><i>Due to other banks</i></b>	3%	5%	4%
<b><i>Customer accounts</i></b>			
Current/settlement accounts of legal entities	3%	2%	2%
Term deposits of legal entities	11%	11%	11%
Current/demand accounts of individuals	3%	3%	4%
Term deposits individuals	9%	11%	11%
<b><i>Other borrowed funds</i></b>	5%	6%	6%
<b><i>Subordinated debt</i></b>	10%	10%	10%



**40 Presentation of Financial Instruments by Measurement Category**

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2011:

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

**40 Presentation of Financial Instruments by Measurement Category (Continued)**

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

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

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2009:

<i>In thousands of GEL</i>	<b>Loans and receivables</b>	<b>Available for sale assets</b>	<b>Trading assets</b>	<b>Held to maturity</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	-	<b>332,848</b>
Due from other banks	37,249	-	-	-	<b>37,249</b>
Loans and advances to customers	988,428	-	-	-	<b>988,428</b>
Investment securities available for sale	-	3,619	-	-	<b>3,619</b>
Investment securities held to maturity	-	-	-	115,496	<b>115,496</b>
Investments in leases	14,090	-	-	-	<b>14,090</b>
Other financial assets:					
- Other financial receivables	6,981	-	-	-	<b>6,981</b>
- Corporate shares	-	-	82	-	<b>82</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,046,748</b>	<b>3,619</b>	<b>82</b>	<b>115,496</b>	<b>1,498,793</b>
<b>NON-FINANCIAL ASSETS</b>	-	-	-	-	<b>239,227</b>
<b>TOTAL ASSETS</b>	-	-	-	-	<b>1,738,020</b>

As at 31 December 2011, 2010 and 2009, all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

**41 Related Party Transactions**

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

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

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

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

	<b>Note</b>	<b>Significant shareholders</b>	<b>Key management personnel</b>	<b>Other related parties</b>
<i>In thousands of GEL</i>				
Interest income		3,328	332	276
Interest expense		401	463	428
Provision for loan impairment		-	-	-
Gains less losses from trading in foreign currencies		13	5	611
Fee and commission income		8	10	126
Administrative and other operating expenses		55	317	-
Net loss on derivative financial instruments	38	5,152	-	-

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

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

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

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

**41 Related Party Transactions (Continued)**

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

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

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

<i>In thousands of GEL</i>	<b>Significant shareholders</b>	<b>Key management personnel</b>	<b>Other related parties</b>
Interest income	548	127	201
Interest expense	468	247	9
Provision for loan impairment	2,397	44	40
Gains less losses from trading in foreign currencies	49	4	138
Fee and commission income	3	-	315
Administrative and other operating expenses	27	105	-

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

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

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

<i>In thousands of GEL</i>	<b>Significant shareholders</b>	<b>Key management personnel</b>	<b>Other related parties</b>
Amounts advanced to related parties during the year (including accrual of interest)	13,857	956	11,893
Amounts repaid by related parties during the year	(12,134)	(1,315)	(7,720)

**41 Related Party Transactions (Continued)**

At 31 December 2009, the outstanding balances with related parties were as follows:

<i>In thousands of GEL</i>	<b>Significant shareholders</b>	<b>Key management personnel</b>	<b>Other related parties</b>
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)	35,715	1,502	5,767
Impairment provisions for loans and advances to customers	(20,931)	(41)	(157)
Other borrowed funds	66,678	-	-
Customer accounts (contractual interest rate: 0 - 13 %)	5,671	2,799	262
Subordinated debt (contractual interest rate: 5 - 11.3 %)	69,375	-	-

The income and expense items with related parties except from key management compensation for the year 2009 were as follows:

<i>In thousands of GEL</i>	<b>Significant shareholders</b>	<b>Key management personnel</b>	<b>Other related parties</b>
Interest income	3,695	202	112
Interest expense	15,089	220	8
Provision for loan impairment	17,537	11	43
Gains less losses from trading in foreign currencies	(18)	6	301
Fee and commission income	7	5	40
Administrative and other operating expenses	48	60	-
Charity contributions	-	-	3,502

At 31 December 2009, other rights and obligations with related parties were as follows:

<i>In thousands of GEL</i>	<b>Significant shareholders</b>	<b>Key management personnel</b>	<b>Other related parties</b>
Guarantees issued by the Group at the year end	-	-	198
Other commitments	89	95	-

Aggregate amounts of loans advanced to and repaid by related parties during 2009 were:

<i>In thousands of GEL</i>	<b>Significant shareholders</b>	<b>Key management personnel</b>	<b>Other related parties</b>
Amounts advanced to related parties during the year (including accrual of interest)	4,530	197	5,727
Amounts repaid by related parties during the year	(2,344)	(391)	-

During 2009 the Group wrote off GEL 20,772 thousand of loans and advances to significant shareholders.

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

<i>In thousands of GEL</i>	<b>2011</b>		<b>2010</b>		<b>2009</b>	
	<b>Expense</b>	<b>Accrued liability</b>	<b>Expense</b>	<b>Accrued liability</b>	<b>Expense</b>	<b>Accrued liability</b>
Salaries and cash settled bonuses	4,740	4,887	5,561	4,935	6,330	1,880
Equity-settled share-based compensation	6,180	-	-	-	275	-
<b>Total</b>	<b>10,920</b>	<b>4,887</b>	<b>5,561</b>	<b>4,935</b>	<b>6,605</b>	<b>1,880</b>

## 42 Business Combination

On 13 May 2011 the Group acquired 80% of the share capital of JSC Bank Constanta and obtained control through its ability to cast a majority of votes in the general meeting of shareholders. The acquired subsidiary will increase the Group's penetration of its chosen small and micro lending market and is expected to improve profitability through the economies of scale.

The acquisition-date fair value of the total purchase consideration and its components are as follows:

*In thousands of GEL*

Cash consideration paid	13,602
<b>Total purchase consideration</b>	<b>13,602</b>

Acquisition related transaction costs were expensed as general and administrative expenses.

The consideration paid by the Group was based on results of an internal appraisal of the acquiree's business taken as a whole. However, in accordance with IFRS 3 "Business Combinations", the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. These two different approaches can lead to differences; and, as set out in the table below, recognition of goodwill. Details of the assets and liabilities acquired and goodwill arising is as follows:

<i>In thousands of GEL</i>	<b>Note</b>	<b>IFRS carrying amount immediately before business combination</b>	<b>Attributed fair value</b>
Cash and cash equivalents		13,751	13,751
Loans and advances to customers		76,106	76,106
Other assets		9,253	9,253
Customer accounts		(3,457)	(3,457)
Amounts owed to credit institutions		(79,117)	(79,117)
Other liabilities		(496)	(496)
<b>Fair value of net assets of subsidiary</b>			<b>16,040</b>
Less: non controlling interest			(3,207)
<b>Fair value of acquired interest in net assets of subsidiary</b>			<b>12,833</b>
Goodwill arising from the acquisition	16		769
<b>Total purchase consideration</b>			<b>13,602</b>
Less: cash and cash equivalents of subsidiary acquired			(13,752)
<b>Inflow of cash and cash equivalents on acquisition</b>			<b>(150)</b>

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined costs savings expected to arise. The purchase consideration comprises cash and cash equivalents paid of GEL 13,602 thousand.

The acquired subsidiary contributed net revenues of GEL 3,074 thousand and profit of GEL 2,369 thousand to the Group for the period from the date of acquisition to 31 December 2011. If the acquisition had occurred on 1 January 2011, the contribution to the Group's net revenues for the year ended 31 December 2011 would have been GEL 3,774 thousand, and to profit would have been GEL 2,807 thousand.