JSC Bank of Georgia and Subsidiaries
Consolidated Financial Statements

Year ended 31 December 2008
Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of JSC Bank of Georgia and Subsidiaries which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Bank of Georgia and Subsidiaries as at 31 December 2008, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

31 March 2009

ERNST & YOUNG LLC

CONSOLIDATED BALANCE SHEET

As of 31 December 2008

(Thousands of Georgian Lari)

	Notes	2008	2007
Assets			
Cash and cash equivalents	7	397,591	405,770
Amounts due from credit institutions	8	99,633	154,560
Loans to customers	9	2,039,022	1,675,681
Finance lease receivables	10	41,605	46,674
Investment securities:			
- available–for-sale	11	33,737	42,387
- held–to-maturity	11	22,845	192,464
Investments in associates	12	16,716	5,208
Investment properties	13	47,289	35,065
Property and equipment	14	301,784	204,656
Goodwill and other intangible assets	15	152,459	115,989
Current and deferred income tax assets	16	12,786	1,557
Prepayments		18,319	5,942
Other assets	18	75,121	67,658
Total assets		**3,258,907**	**2,953,611**
Liabilities			
Amounts due to credit institutions	19	1,216,722	901,795
Amounts due to customers	20	1,193,124	1,355,476
Current and deferred income tax liabilities	16	24,394	37,209
Provisions	17,22	4,263	1,003
Other liabilities	18	101,555	100,137
Total liabilities		**2,540,058**	**2,395,620**
Equity	21		
Share capital		31,253	27,155
Additional paid-in capital		468,732	315,415
Treasury shares		(2,018)	(1,737)
Other reserves		26,201	67,354
Retained earnings		141,491	136,342
Total equity attributable to shareholders of the Bank		**665,659**	**544,529**
Minority interests		53,190	13,462
Total equity		**718,849**	**557,991**
Total liabilities and equity		**3,258,907**	**2,953,611**

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

Irakli Gilauri Chief Executive Officer

David Vakhtangishvili Chief Financial Officer

31 March 2009

The accompanying notes on pages 5 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

(Thousands of Georgian Lari)

	Notes	2008	2007
Interest income			
Loans to customers		363,013	203,759
Investment securities - held-to-maturity		16,457	23,394
Amounts due from credit institutions		10,732	9,942
Finance lease receivables		7,010	4,136
Investment securities – available-for-sale		6,727	1,073
		403,939	**242,304**
Interest expense			
Amounts due to credit institutions		(97,035)	(58,072)
Amounts due to customers		(85,358)	(53,419)
Debt securities issued		(706)	(594)
		(183,099)	**(112,085)**
Net interest income before impairment charge on interest-earning assets		**220,840**	**130,219**
Impairment charge on loans to customers	9	(122,812)	(17,409)
Impairment charge on finance lease receivables	10	(1,335)	(708)
Net interest income after impairment charge		**96,693**	**112,102**
Fee and commission income		63,503	48,358
Fee and commission expense		(13,534)	(6,610)
Net fee and commission income	23	**49,969**	**41,748**
Net (losses) gains from for trading securities		(5,447)	2,930
Net gains from investment securities available-for-sale	21	513	2,481
Net (losses) gains from revaluation of investment properties	13	(389)	16,362
Net gains from foreign currencies:			
- dealing		39,443	22,395
- translation differences		7,691	4,315
Net insurance premiums earned	24	35,911	14,260
Share of (loss) profit of associates	12	(713)	137
Other operating income		14,747	9,766
Other non-interest income		**91,756**	**72,646**
Salaries and other employee benefits	25	(108,767)	(75,639)
General and administrative expenses	25	(68,649)	(36,164)
Depreciation, amortization and impairment	14, 15	(20,532)	(9,863)
Net insurance claims incurred	24	(26,895)	(8,799)
Impairment (charge) reversal on other assets and provisions	17	(4,551)	365
Other operating expenses		(9,828)	(6,684)
Other non-interest expenses		**(239,222)**	**(136,784)**
(Loss) profit before income tax benefit (expense)		**(804)**	**89,712**
Income tax benefit (expense)	16	978	(14,070)
Profit for the year		**174**	**75,642**
Attributable to:			
- shareholders of the Bank		3,897	72,484
- minority interests		(3,723)	3,158
		174	**75,642**
Earnings per share:	21		
- basic earnings per share		0.129	2.958
- diluted earnings per share		0.129	2.947

The accompanying notes on pages 5 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

(Thousands of Georgian Lari)

	Attributable to shareholders of the Bank							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Minority interests*	*Total equity*
31 December 2006	**25,202**	**277,440**	**(1,004)**	**5,257**	**63,746**	**370,641**	**4,217**	**374,858**
Net change in investment securities available-for-sale, net of tax	–	–	–	859	–	859	–	859
Revaluation of property and equipment and investment properties, net of tax	–	–	–	59,295	–	59,295	964	60,259
Increase in share capital arising from share-based payments (Note 21)	146	948	–	–	–	1,094	–	1,094
Depreciation of revaluation reserve, net of	–	–	–	(112)	112	–	–	–
Share offering costs adjustment	–	1,321	–	–	–	1,321	–	1,321
Currency translation differences	–	–	–	2,055	–	2,055	–	2,055
Total income and expenses recognised directly in equity	**146**	**2,269**	**–**	**62,097**	**112**	**64,624**	**964**	**65,588**
2007 profit	–	–	–	–	72,484	72,484	3,158	75,642
Total income and expenses for the year	**146**	**2,269**	**–**	**62,097**	**72,596**	**137,108**	**4,122**	**141,230**
Increase in share capital (Note 21)	1,807	37,751	–	–	–	39,558	–	39,558
Acquisition of additional interests in existing subsidiaries by minority shareholders	–	–	–	–	–	–	3,494	3,494
Acquisition of minority interests in existing subsidiaries	–	–	–	–	–	–	(87)	(87)
Minority interests arising on acquisition of	–	–	–	–	–	–	1,716	1,716
Sale of treasury shares	–	9,600	–	–	–	9,600	–	9,600
Purchase of treasury shares	–	(11,645)	(733)	–	–	(12,378)	–	(12,378)
31 December 2007	**27,155**	**315,415**	**(1,737)**	**67,354**	**136,342**	**544,529**	**13,462**	**557,991**
Net change in investment securities available-for-sale, net of tax	–	–	–	(8,670)	–	(8,670)	–	(8,670)
Revaluation of property and equipment,	–	–	–	(8,796)	–	(8,796)	–	(8,796)
Issuance of shares arising from business combination (Note 21)	89	573	–	–	–	662		662
Increase in share capital arising from share-based payments (Note 21)	9	8,590	341	–	–	8,940	–	8,940
Depreciation of revaluation reserve, net of tax	–	–	–	(1,252)	1,252	–	–	–
Share offering costs adjustment	–	(357)	–	–	–	(357)	–	(357)
Currency translation differences	–	–	–	(22,435)	–	(22,435)	–	(22,435)
Total income and expenses recognised directly in equity	**98**	**8,806**	**341**	**(41,153)**	**1,252**	**(30,656)**	**–**	**(30,656)**
2008 profit	–	–	–	–	3,897	3,897	(3,723)	174
Total income and expenses for the year	**98**	**8,806**	**341**	**(41,153)**	**5,149**	**(26,759)**	**(3,723)**	**(30,482)**
Increase in share capital from issuance of GDRs (Note 21)	4,000	146,594	–	–	–	150,594	–	150,594
Acquisition of additional interests in existing subsidiaries by minority shareholders	–	–	–	–	–	–	31,278	31,278
Minority interests arising on acquisition of	–	–	–	–	–	–	12,173	12,173
Sale of treasury shares	–	5,544	256	–	–	5,800	–	5,800
Purchase of treasury shares	–	(7,627)	(878)	–	–	(8,505)	–	(8,505)
31 December 2008	**31,253**	**468,732**	**(2,018)**	**26,201**	**141,491**	**665,659**	**53,190**	**718,849**

The accompanying notes on pages 5 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

(Thousands of Georgian Lari)

	Notes	*2008*	*2007*
Cash flows from operating activities			
Interest received		384,802	234,083
Interest paid		(173,534)	(88,027)
Fees and commissions received		63,503	48,357
Fees and commissions paid		(13,534)	(6,608)
Net realized (losses) gains from trading securities		(5,432)	2,764
Net realized gains from investments securities		498	2,481
Net realized gains from foreign currencies		39,443	22,395
Recoveries of loans to customers	9	11,176	7,918
Insurance premiums received		24,262	19,336
Insurance claims paid		(11,095)	(6,554)
Other operating income received		11,499	9,504
Salaries and other employee benefits paid		(106,605)	(53,838)
General and administrative and operating expenses paid		(62,174)	(41,298)
Cash flows from operating activities before changes in operating assets and liabilities		**162,809**	**150,513**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		62,312	(82,753)
Loans to customers		(488,574)	(774,471)
Finance lease receivables		3,722	(38,078)
Prepayments and other assets		(3,678)	(17,672)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		339,654	604,576
Amounts due to customers		(211,774)	537,984
Other liabilities		(9,813)	2,970
Net cash flows (used in) from operating activities before income tax		**(145,342)**	**383,069**
Income tax paid		(19,580)	(3,854)
Net cash (used in) from operating activities		**(164,922)**	**379,215**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	5	(41,740)	(12,256)
Proceeds from sale of investment securities		166,175	–
Purchase of investment securities		–	(11,838)
Purchase of investments in associates	12	(13,355)	(5,275)
Proceeds from sale of investments in associates	12	860	700
Purchase of investment properties	13	(12,613)	(10,499)
Purchase of property and equipment and intangible assets	14,15	(122,881)	(74,238)
Net cash used in investing activities		**(23,554)**	**(113,406)**
Cash flows from financing activities			
Proceeds from increase in share capital		150,594	38,908
Purchase of treasury shares		(8,505)	(11,728)
Sale of treasury shares		5,800	9,600
Purchase of additional interests by minority shareholders		31,794	3,494
Purchase of additional interests in existing subsidiaries, net of cash acquired		–	303
Proceeds from debt securities issued		–	(9,045)
Redemption of debt securities issued		(4,988)	49
Net cash from financing activities		**174,695**	**31,581**
Effect of exchange rates changes on cash and cash equivalents		5,602	335
Net (decrease) increase in cash and cash equivalents		**(8,179)**	**297,725**
Cash and cash equivalents, beginning		**405,770**	**108,045**
Cash and cash equivalents, ending	7	**397,591**	**405,770**

The accompanying notes on pages 5 to 69 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

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

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and international and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2008 the Bank has 151 operating outlets in all major cities of Georgia (2007: 117). The Bank's registered legal address is 3 Pushkin Street, Tbilisi 0105, Georgia.

As of 31 December 2008 and 2007 the following shareholders owned more than 4% of the outstanding shares of the Bank. Other shareholders individually owned less than 4% of the outstanding shares.

Shareholder	*31 December 2008, %*	*31 December 2007, %*
Bank of New York (Nominees), Limited	77.45%	71.38%
Firebird Avrora Fund	4.68%	5.39%
Firebird Republics Fund	4.58%	5.27%
East Capital Financial Institutions	4.37%	5.03%
Others (less than 5% individually)	8.92%	12.93%
Total	**100.00%**	**100.00%**

As of 31 December 2008, the members of the Supervisory Board and Board of Directors owned 468,827 shares and Global Depositary Receipts ("GDRs") (1.500%; 2007: 214,146 shares and GDRs 0.787%) of the Bank. Interests of the members of the Supervisory Board and Management Board were as follows:

Shareholder	*31 December 2008, shares held*	*31 December 2007, shares held*
Sulkhan Gvalia	166,907	188,050
Irakli Gilauri	136,303	1,587
Nicholas Enukidze	75,377	1,045
Ramaz Kukuladze	52,092	23,094
Avto Namicheishvili	12,489	–
Allan Hirst	10,685	–
Irakli Burdiladze	10,036	370
Kakha Kiknavelidze	4,938	–
Total	**468,827**	**214,146**

In addition to shares held, the members of the Supervisory Board and Management Board were awarded 198,139 and 244,617 Global Depository Receipts ("GDR") in 2008 and 2007, respectively. The awards are subject to three-year vesting. As of 31 December 2008 313,330 GDRs owned by the members of the Supervisory Board and Management Board vested and comprised as follows (in 2007: 31,665):

Member of the Supervisory Board and/or Management Board	*31 December 2008, GDRs vested*	*31 December 2007, GDRs vested*
Irakli Gilauri	134,716	16,666
Nicholas Enukidze	74,332	–
Ramaz Kukuladze	52,092	1,666
Sulkhan Gvalia	26,857	13,333
Avto Namicheishvili	11,667	–
Irakli Burdiladze	9,666	–
Kakha Kiknavelidze	4,000	–
Total	**313,330**	**31,665**

(Thousands of Georgian Lari)

2. Basis of Preparation

General

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

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

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

Subsidiaries

The consolidated financial statements as of 31 December 2008 and 2007 include the following direct and indirect subsidiaries:

	Ownership / voting, %					
Subsidiaries	***December 31, 2008***	***December 31, 2007***	***Country of incorporation***	***Industry***	***Date of incorporation***	***Date of acquisition***
JSC BG Bank (formerly known as United Bank of Development and Partnership)	99.4%	98.8%	Ukraine	Banking	26/01/1994	01/10/2007
Valimed, LLC	100.0%	-	Belarus	Investment	14/09/2000	03/06/2008
⇒ JSC Belaruskiy Narodniy Bank	70.0%	-	Belarus	Banking	16/04/1992	03/06/2008
⇒ BNB Leasing, LLC	76.0%	-	Belarus	Leasing	30/03/2006	03/06/2008
JSC Galt and Taggart Securities	100.0%	100.0%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
⇒ JSC Caucasus Energy and Infrastructure	(c)	100.0%	Georgia	Investment	07/06/2007	-
⇒ Galt &Taggart Tax Advisory, LLC	100.0%	100.0%	Georgia	Tax consulting	25/09/2007	-
⇒ Galt and Taggart Holdings Limited	100.0%	100.0%	Cyprus	Investment	03/07/2006	-
⇒ Galt &Taggart Trading Limited	100.0%	100.0%	Cyprus	Investment	26/03/2007	-
⇒ JSC Galt and Taggart Securities, SA (Moldova)	95.1%	-	Moldova	Investment	07/07/2008	-
⇒ Galt and Taggart Securities (Ukraine), LLC	100.0%	100.0%	Ukraine	Brokerage	23/10/2006	-
⇒ Galt and Taggart Securities (Belarus), LLC	100.0%	-	Belarus	Brokerage	19/02/2008	-
⇒ Brooksby Investments Limited	100.0%	-	Cyprus	Investments	04/03/2008	18/06/2008
⇒ Galt&Taggart Securities MMC, LLC	75.0%	-	Azerbaijan	Investment banking and brokerage services	30/06/2008	-
⇒ GTAM Limited	80.0%	80.0%	Cyprus	Investment activity	23/10/2007	-
⇒ Galt and Taggart Asset Management, LLC	100.0%	100.0%	Georgia	Asset management	31/05/2007	-
⇒ JSC Belorussian Investments	100.0%	-	Georgia	Consumer goods production & distribution	14/05/2008	-
⇒ JSC Liberty Financial Opportunities	100.0%	-	Georgia	Investment	03/09/2008	-
⇒ JSC Galt and Taggart Holdings	100.0%	-	Georgia	Investment	04/11/2008	-

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries (continued)

Subsidiaries	Ownership / voting, % 'December 31, 2008	'December 31, 2007	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC Liberty Consumer (formerly JSC Galt and Taggart Capital)	65.4%	71.6%	Georgia	Investment	24/05/2006	-
⇒ JSC SB Real Estate	52.1%	100.0%	Georgia	Real estate	27/09/2006	-
⇒ Vere+, LLC	100.0%	100.0%	Georgia	Real estate	22/05/1996	06/02/2007
⇒ Alegro, LLC	100.0%	-	Georgia	Commercial	09/09/1996	12/03/2008
⇒ JSC SB Outdoor & Indoor	100.0%	100.0%	Georgia	Advertising	09/06/2006	-
⇒ Intertour, LLC	83.6%	83.6%	Georgia	Travel agency	29/03/1996	25/04/2006
⇒ Holiday Travel, LLC	100.0%	100.0%	Georgia	Travel agency	11/02/2005	04/09/2006
⇒ JSC Prime Fitness	100.0%	100.0%	Georgia	Fitness centre	03/07/2006	-
⇒ MetroNet, LLC	100.0%	100.0%	Georgia	Communication services	23/04/2007	-
⇒ SB Transport, LLC	100.0%	100.0%	Georgia	Transportation	20/02/2007	-
⇒ Real Estate Brokerage-Presto, LLC	100.0%	100.0%	Georgia	Real estate brokerage	16/11/2007	-
⇒ JSC SB Immobiliare	100.0%	-	Georgia	Real estate, Construction	12/03/2008	-
JSC Insurance Company Aldagi BCI	100.0%	100.0%	Georgia	Insurance	22/06/2007	-
⇒ JSC My Family Clinic	100.0%	100.0%	Georgia	Healthcare	03/10/2005	-
⇒ JSC Kutaisi St. Nicholas Surgery Hospital	55.0%	-	Georgia	Medical	03/11/2000	20/05/2008
Georgian Leasing Company, LLC	100.0%	100.0%	Georgia	Leasing	29/10/2001	31/12/2004
⇒ JSC DBL.ge	100.0%	100.0%	Georgia	Investment	23/04/2007	-
⇒ JSC DBL Capital	100.0%	100.0%	Georgia	Brokerage	27/04/2007	-
⇒ Tavazi, LLC	(b)	100.0%	Georgia	Brokerage	31/03/2001	20/04/2006
⇒ Hedji, LLC	(b)	100.0%	Georgia	Brokerage	22/05/2002	17/04/2006
⇒ Georgian Securities, LLC	(b)	100.0%	Georgia	Brokerage	19/06/2000	08/10/2007
⇒ Georgian Brokers Company, LLC	(b)	100.0%	Georgia	Brokerage	23/06/1999	21/12/2006
GC Holdings, LLC	100.0%	100.0%	Georgia	Investment	29/10/2007	-
⇒ GC Ukraine, LLC	100.0%	-	Ukraine	Card processing	30/07/2008	-
⇒ JSC Georgian Card	55.7%	55.7%	Georgia	Card processing	17/01/1997	20/10/2004
⇒ JSC Nova Technology	51.0%	51.0%	Georgia	Electronic payment services	19/03/2007	11/11/2007
⇒ Direct Debit Georgia, LLC	100.0%	100.0%	Georgia	Electronic payment services	07/03/2006	-
JSC United Securities Registrar of Georgia	100.0%	-	Georgia	Registrar	29/05/2006	-
⇒ JSC SB Reestri	(a)	100.0%	Georgia	Registrar	29/05/2006	-
⇒ United Securities Registrar of Georgia, LLC	(a)	100.0%	Georgia	Registrar	25/01/1999	30/09/2006
Club 24, LLC	100.0%	100.0%	Georgia	Entertainment	27/11/2007	-
JSC SB Trade	100.0%	100.0%	Georgia	Import and distribution	26/02/2007	-
Metro Service +, LLC	100.0%	100.0%	Georgia	Business servicing	10/05/2006	-
JSC Galt and Taggart Bank	(d)	100.0%	Georgia	Banking	30/12/1996	31/05/2007

(a) United Securities Registrar of Georgia, LLC (subsidiary) merged with JSC SB Reestri (parent) in 2008. Name of JSC SB Reestri was changed to JSC United Securities Registrar of Georgia

(b) Merged with JSC DBL Capital in 2008

(c) No longer Group subsidiary due to sale in 2008

(d) Merged with JSC Bank of Georgia in 2008

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

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

Reclassification of Financial Assets – Amendments to IAS 39 "Financial instruments: Recognition and measurement" and IFRS 7 "Financial instruments: Disclosures"

Amendments to IAS 39 and IFRS 7 were issued on 13 October 2008 and allow reclassification of non-derivative financial assets out of the held for trading category in particular circumstances. The amendments also allow transfer of certain financial assets from the available-for-sale category to loans and receivables category. The effective date of those amendments is 1 July 2008. Any reclassification made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made.

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;

- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

The Group did not reclassify any financial assets from held for trading or available-for-sale categories and hence these amendments did not have any impact on the financial position or performance of the Group.

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions"

IFRIC Interpretation 11 became effective for annual periods beginning on or after 1 March 2007 and requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation has no impact on the Group.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC Interpretation 14 was issued in July 2007 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. This Interpretation has no impact on the financial position or performance of the Group.

3. Summary of Significant Accounting Policies (continued)

Reclassifications

The following reclassifications were made to 2007 balances to conform to 2008 presentation requirements:

Caption	*As previously reported*	*As reclassified*	*Comment*
Consolidated balance sheet:			
Trading securities	6,342	–	Reclassified to Other Assets due to immaterial balance
Other assets	61,316	67,658	Included Trading Securities
Debt securities issued	4,993	–	Reclassified to Other Liabilities due to immaterial balance
Other liabilities	95,144	100,137	Included Debt Securities Issued
Consolidated income statement:			
Impairment charge on finance lease receivables	–	(708)	Presented separately from Other Operating Expenses due to increased exposure of credit risks associated with impairment of finance lease receivables
Other operating expenses	(7,392)	(6,684)	Reclassified and shown separately Impairment Charge on Finance Lease Receivables
Share of (loss) profit of associates	–	137	Presented separately from Other Operating Income due to increased significance of the amount
Other operating income	9,903	9,766	Reclassified and shown separately Share of (Loss) Profit of Associates

* Risk management disclosures for 2007 have been updated respectively, as well.

Subsidiaries

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

Acquisition of subsidiaries

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Subsidiaries (continued)

Step-up acquisition

For business combination involving exchange transaction in stages by successive phase purchases, each exchange transaction is treated separately by the Bank, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the Bank's interest in the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities at each step.

Increases in ownership interests in subsidiaries

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

Investments in associates

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

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

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Financial assets (continued)

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

Determination of fair value

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for long positions and ask price for short positions at the close of business on the balance sheet date, without any deduction for transaction costs. For all other financial instruments where there is no active market, fair value is determined using valuation techniques. Valuation techniques include using recent arm's length market transactions, which are determined not to be a result of a forced transaction, involuntary liquidation or distress sale, reference to the current market value of similar instrument, discounted cash flow analysis and other relevant valuation models.

Offsetting

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

Cash and cash equivalents

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

3. Summary of Significant Accounting Policies (continued)

Derivative financial instruments

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

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

Promissory notes

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

Borrowings

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

Leases

i. Finance - Group as lessor

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

ii. Operating - Group as lessee

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

iii. Operating - Group as lessor

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

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

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

Amounts due from credit institutions and loans to customers

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

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Held-to-maturity financial investments

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

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement on income, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognised in profit or loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

De-recognition of financial assets and liabilities

Financial assets

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

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

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

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

3. Summary of Significant Accounting Policies (continued)

De-recognition of financial assets and liabilities (continued)

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

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

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

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

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

Investment properties

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Property and equipment

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

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

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

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 income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

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

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

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

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

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

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

Goodwill

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Goodwill (continued)

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Other intangible assets

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

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

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

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

Provisions

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Insurance and reinsurance receivables

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

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

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

Insurance liabilities

General insurance liabilities

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

Provision for unearned premiums

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

Liability adequacy test

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

Retirement and other employee benefit obligations

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions

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

Equity-settled transactions

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

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

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

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

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

Share capital

Share capital

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

Treasury shares

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

Dividends

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

Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segments) or in providing products or services within particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments. The Group determines that the primary and secondary segments are business and geographical, respectively.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Contingencies

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

Income and expense recognition

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

Fee income from providing transaction services

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

Dividend income

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition

Insurance premium income

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

Insurance claims

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

Functional and reporting currencies and foreign currency translation

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

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2008 and 2007 were 1.6670 and 1.5916 Lari to USD 1 and 2.3648 and 2.3315 Lari to EUR 1, respectively.

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

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

Standards and interpretations that are issued but not yet effective

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

Improvements to IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2009, with earlier application permitted. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

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

IAS 1 Presentation of Financial Statements (Revised)

A revised IAS 1 was issued in September 2007, and becomes effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

IAS 23 "Borrowing Costs"(Revised)

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

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

These amendments were issued in February 2008, and become effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments will have no impact on the Group.

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

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

Amendments to IFRS 1 "First-time Adoption of IFRSs" and IAS 27 "Consolidated and Separate Financial Statements" - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

These amendments were issued in May 2008, and become effective for annual periods beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The amendments to IFRS 1 allow an entity to determine the cost of investments in a subsidiary, jointly controlled entity or associate in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

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

Amendment to IFRS 2 were issued in January 2008 and become effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment will have no impact on the financial position or performance of the Group.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

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

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

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

IFRS 8 "Operating Segments"

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

IFRIC 13 "Customer Loyalty Programmes"

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. The Group expects that this interpretation will have no impact on the Group's financial statements.

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

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group expects that this interpretation will have no impact on the Group's financial statements.

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

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

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

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. The Group expects that his interpretation will have no impact on the Group's financial statements.

Amendments to IFRS 7 "Improving Disclosures about Financial Instruments"

Amendments to IFRS 7 "Improving Disclosures about Financial Instruments" were issued in March 2009 and become effective for periods beginning on or after 1 January 2009 with early application permitted. These Amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. The Group expects that his interpretation will have no impact on the Group's financial statements.

4. Significant Accounting Estimates

Estimation uncertainty

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the consolidated financial statements. Actual results, therefore, could differ from these estimates. The most significant estimates are discussed below:

Allowance for impairment of loans and receivables and finance lease receivables

The Group regularly reviews its loans and receivables and finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Contingent liabilities

The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required. As of 31 December 2008, the Group did not record any contingent liabilities.

Impairment of goodwill

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

4. Significant Accounting Estimates (continued)

Estimation uncertainty (continued)

Impairment of long-lived assets

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

Impairment of investments

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

5. Business Combinations

JSC Belarusky Narodny Bank

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

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

The net cash outflow on acquisition was as follows:

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

(Thousands of Georgian Lari)

5. Business Combinations (continued)

JSC Belarusky Narodny Bank (continued)

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

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

JSC Kutaisi St. Nickolas Surgery Clinic

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

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

The net cash outflow on acquisition was as follows:

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

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

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

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2007

JSC Galt and Taggart Bank

On 30 May 2007 the Group acquired 100% of JSC Galt and Taggart Bank (former JSC Cascade Bank), a banking institution operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities of JSC Cascade Bank as of the date of acquisition were as follows:

	Fair value recognized on acquisition	*Carrying value*
Cash and cash equivalents	2,557	2,557
Due from credit institutions	256	256
Investment securities available-for-sale	6,565	6,565
Investments in associates	64	64
Loans to customers	1,786	1,786
Property and equipment	121	121
Intangible assets	41	41
Prepayments and accrued interest receivables	1,458	1,458
Deferred tax assets	524	524
	13,372	**13,372**
Amounts owed to credit institutions	9	9
Amounts owed to customers	2,085	2,085
Other liabilities	1,039	1,035
	3,133	**3,129**
Fair value of net assets	**10,239**	**10,243**
Goodwill arising on acquisition	599	
Consideration paid	**10,838**	

The net cash outflow on acquisition was as follows:

	2007
Cash paid	10,838
Cash acquired with the subsidiary	(2,557)
Net cash outflow	**8,281**

If the combination had taken place at the beginning of the year, the net income of the Group would have been GEL 75,768 and the total revenue would have been GEL 363,823.

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

5. Business Combinations (continued)

Acquisitions in 2007 (continued)

JSC Universal Bank of Development and Partnership

On 1 January 2007 the Group acquired 9.92% of JSC Universal Bank of Development and Partnership, a banking institution located in the Ukraine. On 1 October 2007 the Group acquired up to 98.76% of the JSC Universal Bank of Development and Partnership.

The fair values of identifiable assets, liabilities and contingent liabilities of JSC Universal Bank of Development and Partnership as of 1 January 2007 and 1 October 2007 were as follows:

	1 January 2007		*1 October 2007*	
	Fair value recognized on acquisition	*Carrying value*	*Fair value recognized on acquisition*	*Carrying value*
Cash and cash equivalents	53,090	53,090	134,584	134,584
Due from credit institutions	61	61	5,649	5,649
Loans to customers	215,062	215,062	198,201	198,201
Investment securities available-for-sale	8,356	8,356	18,013	18,013
Property and equipment	4,872	4,872	7,399	7,399
Intangible assets	618	618	700	700
Other assets	258	258	503	503
	282,317	**282,317**	**365,049**	**365,049**
Amounts owed to credit institutions	22,073	22,073	21,288	21,288
Amounts owed to customers	188,774	188,774	252,341	252,341
Debt securities issued	7,463	7,463	12,965	12,965
Deferred income tax liabilities	4,299	4,299	6,664	6,664
Other liabilities	446	446	2,581	2,581
	223,055	**223,055**	**295,839**	**295,839**
Fair value of net assets	**59,262**	**59,262**	**69,210**	**69,210**
Share of net assets acquired	9.922%		88.844%	
Fair value of net assets acquired	**5,880**		**61,489**	

Total fair value of net assets acquired	67,369
Recognized Core Deposit Intangible	1,688
Goodwill arising on acquisition	68,016
Consideration paid	**137,073**

The net cash outflow on acquisition was as follows:

	2007
Cash paid	137,073
Cash acquired with the subsidiary	(134,584)
Net cash outflow	**2,489**

If the combination had taken place at the beginning of the year, the net income of the Group would have been GEL 80,344 and the total revenue would have been GEL 414,832.

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

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2007 (continued)

JSC Nova Technology

On 23 November 2007 the Group acquired 51% Nova Technology LLC, an electronic payment service provider operating in Georgia. The fair value of identifiable assets of the company as of the date of acquisition were provisionally estimated at GEL 2,771, while liabilities at GEL 691. The provisional goodwill on acquisition amounted to GEL 411 and net cash outflow from acquisition amounted to GEL 1,486.

6. Segment Information

The primary segment is determined to be business segment as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary segment information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

For management purposes, the Group is organised into seven business segments:

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

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

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

Corporate and Investment Banking was renamed into Corporate Banking in 2008.

The Group's geographical segments are based on the location of the Group's assets. Income from external customers disclosed by geographical segments is based on the geographical location of its customers.

6. Segment Information (continued)

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

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

The following table presents operating income and profit and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2007:

	Retail banking	*Corporate banking*	*Brokerage and asset and wealth management*	*Corporate center*	*Insurance*	*Inter-company elimination*	*Total*
Revenue							
External operating income							
Net interest income	71,985	55,783	1,182	190	1,079	–	130,219
Net fees and commission income	21,628	12,057	7,225	(945)	1,783	–	41,748
Net foreign currency gains	1,231	3,799	6,009	15,671	-	–	26,710
Other external revenues	1,264	1,673	23,157	7,754	12,088	–	45,936
Operating income from other segments	–	–	15,184	94	4,228	(19,506)	–
Total operating income	**96,108**	**73,312**	**52,757**	**22,764**	**19,178**	**(19,506)**	**244,613**
Impairment charge on interest earning assets	(12,338)	(9,696)	(332)	(274)	4,523	–	(18,117)
Results							
Segment results	35,343	36,819	21,339	(4,209)	6,437	–	95,729
Unallocated expenses							(6,017)
Profit before tax expense							**89,712**
Income tax expense							(14,070)
Profit for the year							**75,642**
Assets and liabilities							
Segment assets	1,530,339	1,240,984	123,172	31,159	26,400	–	2,952,054
Unallocated assets							1,557
Total assets							**2,953,611**
Segment liabilities	1,350,734	858,376	101,359	32,953	14,989	–	2,358,411
Unallocated liabilities							37,209
Total liabilities							**2,395,620**
Other segment information							
Capital expenditures:							
Property, plant and equipment	40,178	28,262	11,412	1,546	–	–	81,398
Intangible assets	43,571	28,443	1,041	712	–	–	73,767
Depreciation	4,464	3,283	747	147	–	–	8,641
Amortization	788	364	50	17	–	–	1,219

(Thousands of Georgian Lari)

6. Segment Information (continued)

Secondary segment information – geographical segment

The Group operates in two main geographical markets: (a) Georgia, and (b) Ukraine, Belarus and Cyprus. The following table show the distribution of the Group's external income, total assets and capital expenditure by geographical segment, allocated based on the location of the Group's assets, for the year ended 31 December 2008:

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

The following table show the distribution of the Group's external income, total assets and capital expenditure by geographical segment, allocated based on the location of the Group's assets, for the year ended 31 December 2007:

	Georgia 2007	*Ukraine and Cyprus 2007*	*Belarus 2007*	*Total 2007*
External income				
Net interest income	124,976	5,243	–	130,219
Net fee and commission income	40,088	1,660	–	41,748
Net foreign currency gains	24,601	2,109	–	26,710
Other non-interest income	45,532	404	–	45,936
Total external income	**235,197**	**9,416**	**–**	**244,613**
Total assets	**2,591,752**	**361,859**	**–**	**2,953,611**
Capital expenditures	**73,931**	**81,234**	–	**155,165**

7. Cash and Cash Equivalents

	2008	*2007*
Cash on hand	164,463	93,710
Current accounts central banks, excluding obligatory reserves	25,731	35,497
Current accounts with other credit institutions	44,080	20,208
Time deposits with credit institutions up to 90 days	163,317	256,355
Cash and cash equivalents	**397,591**	**405,770**

As of 31 December 2008 GEL 222,332 (2007: GEL 207,065) was placed on current and time deposit accounts with internationally recognized and OECD banks that are the counterparties of the Group in performing international settlements. The Group earned up to 1.16 % interest per annum on these deposits (2007: 2.70%).

(Thousands of Georgian Lari)

8. Amounts Due from Credit Institutions

	2008	*2007*
Obligatory reserves with central banks	57,891	144,631
Time deposits with effective maturity of more than 90 days	37,414	5,838
Inter-bank loan receivables	4,328	4,091
Amounts due from credit institutions	**99,633**	**154,560**

Obligatory reserves with central banks represent amounts deposited with NBG ("National Bank of Georgia"), NBU ("National Bank of Ukraine") and NBB (National Bank of Belarus) relating to daily settlements and other activities. Credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with central banks, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group earned up to 2% annual interest on obligatory reserve with NBG in 2008 and 2007.

As of 31 December 2008 GEL 3,913 (2007: GEL 610) was placed on current accounts and inter-bank deposits with three (2006: two) internationally recognised OECD banks. Those amounts were pledged to the counterparty bank as security for open commitments.

As of 31 December 2008 inter-bank loan receivables include GEL 4,328 (2007: GEL 3,979) placed with an Azerbaijani bank.

9. Loans to Customers

	2008	*2007*
Commercial loans	1,044,959	936,668
Consumer loans	496,197	331,082
Residential mortgage loans	391,606	236,397
Micro loans	151,313	152,436
Gold – pawn loans	46,374	28,158
Others	15,174	19,869
Loans to customers, gross	**2,145,623**	**1,704,610**
Less – Allowance for loan impairment	(106,601)	(28,929)
Loans to customers, net	**2,039,022**	**1,675,681**

9. Loans to Customers (continued)

Allowance for loan impairment

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

	Commercial loans 2008	*Consumer loans 2008*	*Residential mortgage loans 2008*	*Micro loans 2008*	*Gold-pawn loans 2008*	*Others 2008*	*Total 2008*
At 1 January 2008	**11,120**	**13,158**	**2,757**	**1,676**	–	**218**	**28,929**
Charge	53,349	50,190	7,164	5,415	–	6,694	122,812
Recoveries	3,265	5,088	1,327	1,496	–	–	11,176
Write-offs	(17,685)	(22,082)	(2,724)	(3,221)	–	–	(45,712)
Interest accrued on impaired loans	(3,067)	(3,730)	(199)	(333)	–	–	(7,329)
Currency translation difference	(1,227)	(471)	(356)	(112)	–	(1,109)	(3,275)
At 31 December 2008	**45,755**	**42,153**	**7,969**	**4,921**	**–**	**5,803**	**106,601**
Individual impairment	37,904	25,920	5,068	3,071	–	651	72,614
Collective impairment	7,850	16,235	2,901	1,850	–	5,151	33,987
	45,754	**42,155**	**7,969**	**4,921**	**–**	**5,802**	**106,601**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**290,561**	**42,338**	**35,280**	**8,505**	**–**	**857**	**377,541**

	Commercial loans 2007	*Consumer loans 2007*	*Residential mortgage loans 2007*	*Micro loans 2007*	*Gold-pawn loans 2007*	*Others 2007*	*Total 2007*
At 1 January 2007	**15,522**	**3,606**	**1,223**	**668**	**1**	–	**21,020**
Charge/(reversal)	(4,093)	16,264	2,448	2,573	(1)	218	17,409
Recoveries	4,544	1,856	593	925	–	–	7,918
Write-offs	(4,173)	(7,577)	(1,445)	(2,380)	–	–	(15,575)
Interest accrued on impaired loans	(740)	(991)	(62)	(110)	–	–	(1,903)
Currency translation difference	60	–	–	–	–	–	60
At 31 December 2007	**11,120**	**13,158**	**2,757**	**1,676**	**–**	**218**	**28,929**
Individual impairment	5,330	3,311	479	539	–	–	9,659
Collective impairment	5,790	9,847	2,278	1,137	–	218	19,270
	11,120	**13,158**	**2,757**	**1,676**	**–**	**218**	**28,929**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**24,753**	**10,366**	**3,551**	**1,700**	**–**	**1,119**	**41,489**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized as at 31 December 2008 comprised GEL 10,241 (2007: GEL 2,324).

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables.
- For retail lending, mortgages over residential properties.

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

Concentration of loans to customers

As of 31 December 2008 concentration of loans granted by the Group to ten largest third party borrowers comprised GEL 230,733 accounting for 11% of gross loan portfolio of the Group (2007: GEL 226,989 and 13% respectively). An allowance of GEL 10,224 (2007: GEL 1,705) was established against these loans.

As of 31 December 2008 and 2007 loans are principally issued within Georgia, and their distribution by industry sector is as follows:

	2008	*2007*
Individuals	1,079,945	699,456
Trade and services	667,557	648,086
Construction and development	158,702	157,797
Energy	66,145	11,512
Transport and communication	52,631	8,084
Mining	34,526	55,053
Agriculture	20,134	64,567
Others	65,983	60,055
Loans to customers, gross	**2,145,623**	**1,704,610**
Less – allowance for loan impairment	(106,601)	(28,929)
Loans to customers, net	**2,039,022**	**1,675,681**

Loans have been extended to the following types of customers:

	2008	*2007*
Individuals	1,079,945	699,456
Private companies	1,029,008	967,023
State-owned entities	36,670	38,131
Loans to customers, gross	**2,145,623**	**1,704,610**
Less – allowance for loan impairment	(106,601)	(28,929)
Loans to customers, net	**2,039,022**	**1,675,681**

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

	2008			*2007*		
	Individual impairment	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***
	2008	***2008***	***2008***	***2007***	***2007***	***2007***
At 1 January	**9,659**	**19,270**	**28,929**	**12,633**	**8,387**	**21,020**
Charge (reversal) for the year	73,311	49,501	122,812	(4,207)	21,616	17,409
Recoveries	6,690	4,486	11,176	5,706	2,212	7,918
Write-offs	(12,757)	(32,955)	(45,712)	(3,945)	(11,630)	(15,575)
Interest accrued on impairment loans to customers	(1,933)	(5,396)	(7,329)	(588)	(1,315)	(1,903)
Currency translation differences	(2,356)	(919)	(3,275)	60	–	60
At 31 December	**72,614**	**33,987**	**106,601**	**9,659**	**19,270**	**28,929**

(Thousands of Georgian Lari)

10. Finance Lease Receivables

	31 December 2008	*31 December 2007*
Minimum lease payments receivables	50,565	54,844
Less - Unearned finance lease income	(6,797)	(7,354)
	43,768	**47,490**
Less - Allowance for impairment	(2,163)	(816)
Finance lease receivables, net	**41,605**	**46,674**

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

As of 31 December 2008, concentration of investments in five largest lessees comprised GEL 32,112 or 73.4% of total finance lease receivables (2007: GEL 38,723 or 83%) and finance income received from them as of 31 December 2008 comprised GEL 3,512 or 50.1% of total finance income from lease (2006: GEL 2,627 or 64%).

As of 31 December 2008 lease receivables amounting to GEL 24,380 represent receivables from a Government agency.

Future minimum lease payments to be received after 31 December 2008 and 31 December 2007 are as follows:

	31 December 2008	*31 December 2007*
Within 1 year	37,550	34,087
From 1 to 5 years	13,015	20,757
More than 5 years	–	–
Minimum lease payment receivables	**50,565**	**54,844**

Minimum lease payments to be received after 31 December 2008 and 2007 are denominated in the following currencies:

	31 December 2008	*31 December 2007*
US Dollars	41,959	48,208
Euros	5,919	6,636
Belarussian Roubles	2,687	–
Minimum lease payment receivables	**50,565**	**54,844**

The equipment the Group leases out at 31 December 2008 and 2007 can be segregated into the following categories:

	31 December 2008		*31 December 2007*	
	Amount	*Number of projects*	*Amount*	*Number of projects*
Air and land transport	37,650	126	44,035	87
Construction equipment	8,985	46	9,306	29
Machinery & equipment	3,930	46	1,503	16
Minimum lease payment receivables	**50,565**	**218**	**54,844**	**132**

(Thousands of Georgian Lari)

10. Finance Lease Receivables (continued)

Allowance for impairment of finance lease receivables

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

	Finance lease receivables 2008	*Finance lease receivables 2007*
At 1 January	**816**	**108**
Charge/(reversal)	1,335	708
Currency translation difference	12	–
At 31 December	**2,163**	**816**
Individual impairment	1,600	318
Collective impairment	563	498
	2,163	**816**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**2,730**	–

11. Investment Securities

Available-for-sale securities comprise:

	2008	*2007*
Corporate shares	21,723	6,763
Corporate bonds	6,748	24,879
Ministry of Finance treasury bills	5,266	10,745
Available-for-sale securities	**33,737**	**42,387**

Corporate shares as of 31 December 2008 are primarily comprised of investments in Georgian retail chain of GEL 9,175 (2007: GEL 3,998) and meat processing company of GEL 6,842 (2007: wine producing company of GEL 1,555).

Corporate bonds as of 31 December 2008 are comprised of GEL 6,748 investments in several financial institutions in Ukraine (2007: GEL 15,542).

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

	31 December 2008		*31 December 2007*	
	%	*Maturity*	*%*	*Maturity*
Corporate bonds	14.41%	1-3 years	14.47%	1-6 years
Ministry of Finance treasury bills	11.95%	1-3 years	9.61%	1-4 years

Held-to-maturity securities comprise:

	2008		*2007*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*
Certificates of deposit of central banks	14,826	15,000	146,016	149,151
State debt securities	8,019	8,047	38,115	37,930
Corporate bonds	–	–	8,263	7,958
Ministry of Finance treasury bills	–	–	70	70
Held-to-maturity securities	**22,845**	**23,047**	**192,464**	**195,109**

(Thousands of Georgian Lari)

11. Investment Securities (continued)

Held-to-maturity securities comprise (continued)

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

	31 December 2008		*31 December 2007*	
	%	*Maturity*	*%*	*Maturity*
Corporate bonds	–	–	9.50%	2010
Ministry of Finance treasury bills	–	–	13.00%	2008
Certificates of deposit of central banks	11.79%	2009	9.79%	2008
State debt securities	13.00%	2009	13.00%	2009

12. Investments in Associates

The following associates are accounted for under the equity method:

2008

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

2007

Associates	*Ownership / Voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC SB Iberia	49.00%	Georgia	12/13/2007	Construction	N/A
JSC Teliani Valley	25.17%	Georgia	30/06/2000	Wine production	13/02/2007
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC One Team	25.00%	Georgia	23/04/2007	Entertainment	N/A
Matsne +, LLC	28.00%	Georgia	29/06/2005	Advertising	15/12/2006

(Thousands of Georgian Lari)

12. Investments in Associates (continued)

Movements in investments in associates were as follows:

	2008	*2007*
Investments in associates, beginning of year, gross	**5,208**	**496**
Purchase cost	13,355	5,275
Disposal	(860)	(700)
Share of (loss) profit	(713)	137
Investments in associates, end of year, gross	**16,990**	**5,208**
Less – Allowance for impairment	(274)	–
Investments in associates, end of year, net	**16,716**	**5,208**

Investments in associates at 31 December 2008 include goodwill of GEL 7,354 (2007: GEL 2,413).

The following table summarises certain financial information of the associates:

Aggregated assets and liabilities of associates	*2008*	*2007*
Assets	58,171	15,611
Liabilities	(32,023)	(5,722)
Net assets	**26,148**	**9,889**

Aggregated revenue and profit of associates	*2008*	*2007*
Revenue	34,663	10,973
(Loss) profit	(1,607)	1,089

Associate company – JSC Teliani Valley is listed on the Georgian Stock Exchange. As of 31 December 2008 the carrying value of the investment in JSC Teliani Valley was GEL 5,042 (2007: GEL 3,810) while the fair value equalled GEL 7,263 (2007: GEL 12,996).

13. Investment properties

	2008	*2007*
At 1 January	**35,065**	**1,224**
Purchases	12,613	10,499
Net change in fair value through profit and loss	(389)	16,362
Transfers from property and equipment (Note 14)	–	5,132
Fair value adjustment through equity	–	1,848
At 31 December	**47,289**	**35,065**

Investment properties are stated at fair value, which has been determined based on the valuation performed by Georgian Valuation Company, an accredited independent appraiser, as at 31 December 2008. Georgian Valuation Company is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

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

	2008	*2007*
Rental income	1,211	628
Direct operating expenses	(76)	(50)

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

(Thousands of Georgian Lari)

14. Property and Equipment

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

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

The movements in property and equipment during 2007 were as follows:

	Buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2006	**37,652**	**21,005**	**11,483**	**1,824**	**2,027**	**4,168**	**78,159**
Acquisition through business combinations	4,147	1,782	2,759	336	–	34	9,058
Additions	25,249	18,900	7,912	3,492	526	16,261	72,340
Disposals	–	(69)	(946)	(35)	(89)	(445)	(1,584)
Transfers	5,398	–	–	–	1,647	(7,045)	–
Transfers to Investment properties	(5,132)	–	–	–	–	–	(5,132)
Revaluation	66,975	–	–	–	–	–	66,975
Currency translation adjustment	795	667	308	148	–	–	1,918
31 December 2007	**135,084**	**42,285**	**21,516**	**5,765**	**4,111**	**12,973**	**221,734**
Accumulated impairment							
31 December 2006 and 31 December 2007	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Accumulated depreciation							
31 December 2006	**1,227**	**4,314**	**4,097**	**749**	**477**	–	**10,864**
Depreciation charge	926	3,236	3,041	744	694	–	8,641
Currency translation difference	(7)	–	2	(5)	–	–	(10)
Disposals	(14)	(19)	(538)	(182)	(61)	–	(814)
Revaluation	(2,070)	–	–	–	–	–	(2,070)
31 December 2007	**62**	**7,531**	**6,602**	**1,306**	**1,110**	**–**	**16,611**
Net book value:							
31 December 2006	**35,958**	**16,691**	**7,386**	**1,075**	**1,550**	**4,168**	**66,828**
31 December 2007	**134,555**	**34,754**	**14,914**	**4,459**	**3,001**	**12,973**	**204,656**

(Thousands of Georgian Lari)

14. Property and Equipment (continued)

The Group engaged Georgian Valuation Company, an independent appraiser, to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. According the most recent revaluation report, the latest date of the revaluation was 31 December 2008. If the buildings were measured using the cost model, the carrying amounts of the buildings as of 31 December 2008 and 31 December 2007 would be as follows:

	2008	*2007*
Cost	66,917	62,605
Accumulated depreciation and impairment	(7,353)	(2,815)
Net carrying amount	**59,564**	**59,790**

15. Goodwill and Other Intangible Assets

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

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

Computer software and licenses additions in 2008 include GEL 8,625 for the acquisition of a 7-year exclusive license (commencing on the date of launching) of American Express Cards and its related products in Georgia.

(Thousands of Georgian Lari)

15. Goodwill and Other Intangible Assets (continued)

Movements in goodwill and intangible assets during 2007 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software*	*Total*
Cost				
31 December 2006	**40,705**	**–**	**6,355**	**47,060**
Acquisition through business combinations (Note 5)	69,026	1,688	1,155	71,869
Additions	767	–	1,131	1,898
Disposals	–	–	(1,030)	(1,030)
31 December 2007	**110,498**	**1,688**	**7,611**	**119,797**
Accumulated amortization and impairment				
31 December 2006	**426**	**–**	**3,205**	**3,631**
Amortization charge	–	–	1,219	1,219
Impairment charge	–	–	3	3
Disposals	–	–	(967)	(967)
Revaluation of amortization charge	–	–	(79)	(79)
Currency translation difference	–	–	1	1
31 December 2007	**426**	**–**	**3,382**	**3,808**
Net book value:				
31 December 2006	**40,279**	**–**	**3,150**	**43,429**
31 December 2007	**110,072**	**1,688**	**4,229**	**115,989**

As of 31 December 2008 goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Bank of Georgia
- JSC Belarusky Narodny Bank
- JSC BG Bank (renamed)
- JSC Insurance Company Aldagi – BCI
- JSC Intertour
- United Georgian Registrar LLC
- JSC Nova Technology

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

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

	WACC appliedfor impairment	*Carrying amount of goodwill*	
		31 December 2008	*31 December 2007*
JSC Bank of Georgia	7.5%	22,391	21,308
JSC BG Bank	11.7%	68,016	68,016
JSC Belarusky Narodny Bank	N/A	23,394	–
JSC Insurance Company Aldagi – BCI	15.8%	18,742	18,454
JSC My Family Clinic	15.8%	220	220
JSC Galt & Taggart Bank	N/A	–	599
Intertour LLC	12.0%	698	698
United Securities Registrar of Georgia, LLC	14.0%	366	366
JSC Nova Technology	14.0%	411	411
Total		**134,238**	**110,072**

(Thousands of Georgian Lari)

15. Goodwill and Other Intangible Assets (continued)

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

Impairment testing of goodwill and other intangible assets with indefinite lives

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

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

	2008	***2007***
Retail banking	78,408	55,036
Corporate banking	35,381	34,889
Insurance	18,962	18,673
Asset & wealth management and brokerage	1,487	1,474
	134,238	**110,072**

Key assumptions used in value in use calculations

The recoverable amount of the Asset Management unit has been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections beyond the five-year period are extrapolated using a projected growth rate.

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

	Corporate Banking		***Retail Banking***	
	2008, %	***2007, %***	***2008, %***	***2007, %***
Discount rate	7.5%	10%	7.5%	10%
Projected growth rate	7.5%	0%	7.5%	0%

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

	Insurance		***Asset & wealth management and brokerage***	
	2008, %	***2007, %***	***2008, %***	***2007, %***
Discount rate	15.8%	13%	12%-14%	12%-14%
Projected growth rate	15.8%	0%	0%	0%

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

Interest margins

Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

Discount rates

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

(Thousands of Georgian Lari)

16. Taxation

The corporate income tax expense comprises:

	2008	*2007*
Current income tax expense	6,762	7,638
Deferred tax (benefit) expense –		
origination and reversal of temporary differences	(10,929)	17,065
Less: Deferred tax recognised directly in equity	3,189	(10,633)
Income tax (benefit) expense	**(978)**	**14,070**

The income tax rate applicable to the majority of the Group's income is the income tax rate applicable to subsidiaries income ranges 15% to 26% (2007: from 15% to 25%). The tax rate for interest income on state securities was Corporate income tax rate in Georgia reduced from to effective 1 January 2009. Reconciliation between the expected and the actual taxation charge is provided below.

The effective income tax rate differs from the statutory income tax rates. As of 31 December 2008 and 2007 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2008	*2007*
(Loss) profit before income tax benefit (expense)	**(804)**	**89,712**
Statutory tax rate	15%	20%
Theoretical income tax (benefit) expense at statutory tax rate	**(121)**	**17,942**
Tax at the domestic rates applicable to profits in the respective country	(837)	25
Non-deductible share-based compensation expenses	1,240	964
Other operating income	207	62
State securities at lower tax rates	(1,020)	(1,900)
Tax effect of intercompany transactions	(783)	–
Change in unrecognized deferred tax assets	–	144
Effect of reduction in tax rate	–	(3,226)
Non-deductible expenses:		
- other impairment losses	171	(153)
- entertainment and business trips	67	–
- other	98	212
Income tax (benefit) expense	**(978)**	**14,070**

Georgia currently has an updated tax code which has been adopted and put in force in 2006. Applicable taxes include corporate income tax (profits tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

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

	2008	*2007*
Current tax assets	8,095	998
Deferred tax assets	4,691	559
Tax assets	**12,786**	**1,557**
Current tax liabilities	779	6,500
Deferred tax liabilities	23,615	30,709
Tax liabilities	**24,394**	**37,209**

(Thousands of Georgian Lari)

16. Taxation (continued)

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

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*			
	2006	*In the income statement*	*Directly in equity*	*Effect of business combi-nation*	*2007*	*In the income statement*	*Directly in equity*	*Effect of business combi-nation*	*2008*
Tax effect of deductible temporary differences:									
Amounts due to credit institutions	1,457	(1,422)	–	–	35	(35)	–	–	–
Investment securities: available-for-sale	–	–	–	–	–	296	1,530	–	1,826
Loans to customers	–	80	–		80	390	–	–	470
Securities issued	–		–	55	55	(55)	–	–	–
Reinsurance assets	–	124	–	–	124	119	–	–	243
Reinsurance premiums receivables	–	–	–	–	–	2,073	–	–	2,073
Allowances for impairment and provisions for other losses	847	(622)	–	–	225	240	–	–	465
Tax losses carried forward	–	1,313	–	–	1,313	16,689	–	–	18,002
Finance lease receivables	–	7	–	–	7	277	–	–	284
Intangible assets	–	181	–	–	181	58	–	–	239
Property and equipment	–	2	–	–	2	(175)	1,659	297	1,783
Other assets	–	115	–		115	348	–	–	463
Other libilities	–	263	–	39	302	433	–	–	735
Gross deferred tax assets	**2,304**	**41**	**–**	**94**	**2,439**	**20,658**	**3,189**	**297**	**26,583**
Unrecognized deferred tax assets	63	(148)	–	(122)	(207)	207	–	–	–
Deferred tax assets	**2,367**	**(107)**	**–**	**(28)**	**2,232**	**20,865**	**3,189**	**297**	**26,583**
Tax effect of taxable temporary differences:									
Amounts due to credit institutions	–	–	–	1,710	1,710	341	–	–	2,051
Amounts due to customers	–	502	–	123	625	(117)	–	–	508
Securities available-for-sale	–	150	–	32	182	–	–	–	182
Loans to customers	2,573	(305)	–	2,223	4,491	2,612	–	–	7,103
Reinsurance assets	–	27	–	–	27	–	–	–	27
Insurance premium receivables	–	6	–	–	6	(6)	–	–	–
Allowances for impairment and provisions for other losses	–	38	–	–	38	1,185	–	–	1,223
Property and equipment	5,774	3,149	10,173	1,060	20,156	8,324	–	–	28,480
Investment properties	–	2,743	460	–	3,203	(342)	–	–	2,861
Intangible assets	731	277	–	–	1,008	1,289	–	–	2,297
Other assets	–	414	–	522	936	(595)	–	–	341
Other liabilities	676	(676)	–	–	–	434	–	–	434
Deferred tax liabilities	**9,754**	**6,325**	**10,633**	**5,670**	**32,382**	**13,125**	**–**	**–**	**45,507**
Net deferred tax assets (liabilities)	**(7,387)**	**(6,432)**	**(10,633)**	**(5,698)**	**(30,150)**	**7,740**	**3,189**	**297**	**(18,924)**

17. Other Impairment Allowance and Provisions

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

	Impairment allowance for investments in associates	*Impairment allowance for other assets*	*Provision for guarantees and commitments*	*Total*
31 December 2006	**–**	**528**	**672**	**1,200**
Charge/(reversal)	–	(696)	331	(365)
Write-offs	–	(100)	–	(100)
Recoveries	–	274	–	274
31 December 2007	**–**	**6**	**1,003**	**1,009**
Charge	274	580	3,697	4,551
Write-offs	–	(57)	(437)	(494)
Recoveries	–	20	–	20
31 December 2008	**274**	**549**	**4,263**	**5,086**

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

(Thousands of Georgian Lari)

18. Other Assets and Other Liabilities

Other assets comprise:

	2008	*2007*
Reinsurance assets	21,493	15,987
Insurance premiums receivable	20,497	14,354
Accounts receivable	7,243	3,690
Receivables from money transfers	5,208	997
Receivables from factoring operations	4,539	1,249
Assets held-for-sale	4,469	–
Foreclosed assets	3,464	3,415
Receivables from sale of assets	2,317	–
Inventory	1,966	–
Operating taxes receivables	1,363	3,500
Operating lease receivables	448	1,286
Prepayments for purchase of property and equipment	245	10,725
Trading securities owned	92	6,342
Settlements on operations with securities	39	2,614
Other	2,287	3,505
	75,670	**67,664**
Less – Allowance for impairment of other assets (Note 17)	(549)	(6)
Other assets	**75,121**	**67,658**

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

Assets held-for-sale comprise 4,469 KGEL of investment in 19.5% share ownership of JSC "GPC", a retail chain of drug stores. Investment was made in June 2008 primarily for the purpose of observing the company's business operations and associated risks in order to decide on acquisition. Based on observations and analysis made, the management of the Group decided in November 2008 to dispose the investment. Negotiations with potential buyers started in December 2008 and are still ongoing. The Group had no gains or losses arising from change in fair value of the asset.

Other liabilities comprise:

	2008	*2007*
Insurance contracts liabilities	44,340	31,813
Accruals for employee compensation	14,165	20,943
Accounts payable	12,803	4,783
Other insurance liabilities	9,424	6,151
Amounts payable for purchase of intangible assets	5,959	–
Creditors	5,858	10,907
Other taxes payable	4,783	7,384
Pension benefit obligations	1,642	1,262
Dividends payable	314	317
Debt securities issued	5	4,993
Amounts payable for share acquisitions	–	1,316
Other	2,262	10,268
Other liabilities	**101,555**	**100,137**

(Thousands of Georgian Lari)

19. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2008	*2007*
Borrowings from international credit institutions	1,108,014	821,667
Time deposits and inter-bank loans	91,389	62,009
Correspondent accounts	17,319	18,119
Amounts due to credit institutions	**1,216,722**	**901,795**

During 2008 the Group received short-term funds from Georgian banks in different currencies. As of 31 December 2008 the Group had an equivalent of GEL 32,795 (2007: GEL 4,744 in foreign currencies received as deposits from Georgian banks. In 2008 the Group paid up to 4.85% interest on these deposits (2007: 5%).

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

As of 31 December 2008

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

(Thousands of Georgian Lari)

19. Amounts Due to Credit Institutions (continued)

As of 31 December 2007

Credit institution	*Grant date*	*Contractual maturity*	*Currency*	*Interest rate per annum*	*Facility amount in original currency*	*Outstanding Balance as of 31 December 2007 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	9%	200,000	323,110
Merrill Lynch International	21-Dec-07	21-Jan-09	USD	USDLIBOR+7.65%	65,000	101,577
Citibank International PLC	17-Aug-07	17-Aug-08	USD	LIBOR+1.9%	55,000	85,505
Citibank International PLC	17-Aug-07	17-Feb-09	USD	LIBOR+2.2%	43,500	69,386
Merrill Lynch International	17-Aug-07	17-Aug-17	USD	LIBOR+5.995%	35,000	58,135
Citibank International PLC	20-Aug-07	20-Aug-10	USD	LIBOR+2.75%	25,000	45,665
National Bank of Georgia	31-Dec-07	4-Jan-08	GEL	14%	30,000	30,000
Semper Augustos B.V.	31-Oct-07	25-Oct-17	USD	11.65%	15,000	24,360
National Bank of Georgia	21-Feb-06	20-Feb-08	GEL	6%	20,000	20,014
Netherlands Development Finance Company	22-Jan-07	15-Mar-14	USD	LIBOR+3.3%	12,500	20,157
World Business Capital	17-Feb-06	1-Oct-16	USD	LIBOR+2.75%	10,000	12,728
European Bank for Reconstruction and Development	17-Dec-07	Revolving	USD	LIBOR+1.5%	5,800	9,253
Hillside Apex Fund Ltd (subordinated debt)	14-Aug-06	14-Aug-16	USD	LIBOR+6.20%	5,000	8,354
World Business Capital	29-Mar-07	25-Mar-17	USD	LIBOR+2.75%	4,607	7,363
AKA Ausfuhrkredit-Gesellschaft m.b.H.	18-Nov-03	Revolving	EUR	LIBOR+2%	5,000	6,626
Commerzbank AG	16-Dec-05	30-Dec-10	USD	LIBOR+1.3%	5,000	5,816
Balances less than GEL 5,000	various	various	various	various	–	55,627
Total						**883,676**

*** - includes accrued interest**

Agreements for significant borrowings contain certain covenants establishing for the Group different limits for capital adequacy, liquidity, currency position, credit exposures, leverage and others. As of 31 December 2008 and 2007, the Group complied with all the covenants of the loans received from credit institutions.

(Thousands of Georgian Lari)

20. Amounts Due to Customers

The amounts due to customers include the following:

	2008	*2007*
Current accounts	612,502	737,045
Time deposits	580,622	618,431
Amounts due to customers	**1,193,124**	**1,355,476**
Held as security against letters of credit	**443**	**9,673**
Held as security against guarantees	**69,998**	**16,701**

At year-end, amounts due to customers of GEL 323,662 (27%) were due to the 10 largest customers (2007: GEL 302,246 (22%)).

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

	2008	*2007*
Individuals	495,747	582,991
Private enterprises	627,049	662,808
State and budget organizations	70,328	109,677
Amounts due to customers	**1,193,124**	**1,355,476**

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

	2008	*2007*
Individuals	495,747	582,991
Trade and services	296,110	354,874
Energy	134,275	78,410
Transport and communication	70,806	61,636
Governmental	70,328	109,677
Construction and development	40,146	62,953
Mining and processing	16,364	68,407
Agriculture	8,426	260
Other	60,922	36,268
Amounts due to customers	**1,193,124**	**1,355,476**

21. Equity

Share capital

As of 31 December 2008, authorized share capital comprised 39,835,619 common shares, of which 31,253,283 were issued and fully paid (2007: 32,835,619 common shares, of which 27,154,918 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as of 31 December 2008 are described below:

	Number of shares Ordinary	***Amount of shares Ordinary***
31 December 2006	**25,202,009**	**25,202**
Increase in share capital	1,157,407	1,157
Increase in share capital arising from share-based payments (Note 26)	145,502	146
Increase in share capital for placement of future share-based payments into trust	650,000	650
31 December 2007	**27,154,918**	**27,155**
Increase in share capital	4,089,000	4,089
Increase in share capital arising from share-based payments (Note 26)	9,365	9
31 December 2008	**31,253,283**	**31,253**

(Thousands of Georgian Lari)

21. Equity (continued)

Share capital (continued)

Share capital of the Group was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. For 2008 net income attributable to ordinary shareholders of the Bank was GEL 3,897 (2007: 72,484). As of 31 December 2008 weighted average number of ordinary shares outstanding during the year was 30,160,451 (2007: 24,503,722). At 31 December 2008 the diluted number of ordinary shares was 30,160,451 (2007: 24,598,722). Thus, both, the basic and diluted earnings per share amounted to GEL 0.129 (2007: GEL 2.958 and GEL 2.947, respectively).

In February of 2008 the Bank offered four million new ordinary shares in the form of global depositary receipts ("GDRs"), each GDR representing one ordinary share of the Bank. The Bank sold the four million (4,000,000) new ordinary shares in the form of GDRs at a price of US$25 per GDR. The Offering raised gross proceeds of US$100 million or equivalent of GEL 150,594. Share offering cost from this transaction amounted to GEL 357. An additional 89,000 shares were issued in 2008 arising from the agreement in relation to the 2005 acquisition of Europace.

Treasury shares

Treasury shares of GEL 890 as of 31 December 2008 comprise the Bank's shares owned by its subsidiaries (2007: GEL 237). Purchases and sales of treasury shares were conducted by the Bank's subsidiaries in the open market: JSC Galt and Taggart Securities, Galt and Taggart Holdings Limited LLC, GC Holdings LLC and JSC Insurance Company Aldagi BCI.

Treasury shares amounting to GEL 1,128 as of 31 December 2008 (2007: GEL 1,500) are kept by the Bank's custodian - Abacus Corporate Trustee Limited.

During the year ended 31 December 2008, 19,933 ordinary shares of GEL 20 par value and additional paid-in capital of GEL 470 have been granted as compensation to top management (2007: GEL 146 at par value and additional paid-in capital of GEL 948).

Dividends

No dividends were declared nor paid during 2008 and 2007.

Other reserves

	Revaluation reserve for property and equipment and investment properties	*Unrealised gains (losses) on investment securities available-for-sale*	*Foreign currency translation reserve*	*Total*
At 31 December 2006	**5,257**	**–**	**–**	**5,257**
Revaluation of buildings and Investment properties	70,893	–	–	70,893
Tax effect of revaluation of buildings	(10,634)	–	–	(10,634)
Depreciation of revaluation reserve, net of tax	(112)	–	–	(112)
Net unrealised gains on available-for-sale investments	–	3,340	–	3,340
Transfer of net realized gains on investment securities available-for-sale to the consolidated income statement	–	(2,481)	–	(2,481)
Minority interest share in revaluation of property and equipment	(964)	–	–	(964)
Currency translation differences	–	–	2,055	2,055
At 31 December 2007	**64,440**	**859**	**2,055**	**67,354**
Revaluation of buildings	(10,455)	–	–	(10,455)
Tax effect of revaluation of buildings	1,659	–	–	1,659
Depreciation of revaluation reserve, net of tax	(1,252)	–	–	(1,252)
Net unrealised gains on available-for-sale investments	–	(8,157)	–	(8,157)
Transfer of net realized gains on investment securities available-for-sale to the consolidated income statement	–	(513)	–	(513)
Currency translation differences	(18)	–	(22,417)	(22,435)
At 31 December 2008	**54,374**	**(7,811)**	**(20,362)**	**26,201**

(Thousands of Georgian Lari)

21. Equity (continued)

Nature and purpose of other reserves

Revaluation reserve for property and equipment and investment properties

The revaluation reserve for property and equipment and investment properties is used to record increases in the fair value of buildings and investment properties and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains (losses) on investment securities available-for-sale

This reserve records fair value changes on investments available-for-sale.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

22. Commitments and Contingencies

Legal

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

Financial commitments and contingencies

As of 31 December 2008 and 2007 the Group's financial commitments and contingencies comprised the following:

	2008	*2007*
Credit-related commitments		
Undrawn loan facilities	90,023	39,962
Letters of credit	32,547	23,130
Guarantees	304,906	145,627
	427,476	**208,719**
Operating lease commitments		
Not later than 1 year	5,874	6,200
Later than 1 year but not later than 5 years	12,832	12,232
Later than 5 years	5,993	5,902
	24,699	**24,334**
Capital expenditure commitments	**19,851**	**2,623**
Less – Provisions (Note 17)	(4,263)	(1,003)
Less – Cash held as security against letters of credit and guarantees (Note 20)	(70,441)	(26,374)
Financial commitments and contingencies, net	**397,322**	**208,299**

As of 31 December 2008 the capital expenditures represented the commitment for purchase of property GEL 2,132 equipment of GEL 4,721 and software and other intangible assets of GEL 12,998. As of 31 December 2007 the capital expenditures represented the commitment for purchase of property GEL 1,028, equipment of GEL 698 and software and other intangible assets of GEL 897.

(Thousands of Georgian Lari)

23. Net Fee and Commission Income

	2008	*2007*
Settlements operations	33,659	25,488
Guarantees and letters of credit	8,625	7,548
Cash operations	6,947	6,079
Brokerage service fees	2,626	3,448
Advisory	2,032	215
Currency conversion operations	1,766	1,284
Other	7,848	4,296
Fee and commission income	**63,503**	**48,358**
Insurance brokerage service fees	(5,965)	(2,103)
Settlements operations	(3,974)	(2,692)
Guarantees and letters of credit	(2,038)	(1,127)
Currency conversion operations	(430)	(162)
Cash operations	(564)	(253)
Other	(563)	(273)
Fee and commission expense	**(13,534)**	**(6,610)**
Net fee and commission income	**49,969**	**41,748**

24. Net Insurance Revenue

Net insurance premiums earned, net insurance claims incurred and respective net insurance revenue for the years ended December 31, 2008 and 2007 comprised:

	2008	*2007*
Life insurance contracts premium written	3,456	814
General insurance contracts premium written, direct	53,201	35,013
Total premiums written	**56,657**	**35,827**
Gross change in life provision	86	93
Gross change in unearned premium provision	(6,311)	(10,366)
Total gross premiums earned on insurance contracts	**50,432**	**25,554**
Reinsurers' share of life insurance contracts premium written	(981)	(399)
Reinsurers' share of general insurance contracts premium written	(15,271)	(12,326)
Reinsurers' share of change in life provision	(4)	(76)
Reinsurers' share of change in general insurance contracts uneared premium provision	1,735	1,507
Total reinsurers' share of gross earned premiums on insurance contracts	**(14,521)**	**(11,294)**
Net insurance premiums earned	**35,911**	**14,260**
Life insurance claims paid	(455)	(233)
General insurance claims paid, direct	(30,175)	(9,825)
Total insurance claims paid	**(30,630)**	**(10,058)**
Reinsurers' share of life claims paid	351	49
Reinsurers' share of general claims paid	5,443	3,076
Gross change in total insurance contracts liabilities	(6,053)	(6,219)
Reinsurers' share of change in total insurance contracts liabilities	3,994	4,353
Net insurance claims incurred	**(26,895)**	**(8,799)**
Net insurance revenue	**9,016**	**5,461**

(Thousands of Georgian Lari)

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

	2008	*2007*
Salaries and bonuses	(104,039)	(64,388)
Social security costs	(4,728)	(11,251)
Salaries and other employee benefits	**(108,767)**	**(75,639)**
Occupancy and rent	(12,811)	(6,173)
Marketing and advertising	(12,251)	(4,767)
Legal and other professional services	(6,391)	(4,132)
Communication	(6,117)	(3,132)
Repairs and maintenance	(5,441)	(3,033)
Security	(4,951)	(2,432)
Operating taxes	(3,496)	(1,720)
Travel expenses	(2,948)	(1,770)
Insurance	(2,886)	(559)
Office supplies	(2,813)	(2,446)
Banking services	(2,293)	(1,533)
Corporate hospitality and entertainment	(1,393)	(681)
Penalties	(745)	(900)
Personnel training and recruitment	(545)	(342)
Other	(3,568)	(2,544)
General and administrative expenses	**(68,649)**	**(36,164)**

Salaries and bonuses include GEL 7,820 and GEL 8,992 of the EECP costs in 2008 and 2007, respectively, associated with the existing share-based compensation scheme approved in the Group (Note 26).

26. Share-based Payments

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

In February 2007 the Bank's Supervisory Board resolved to recommend to the Trustee to award 267,550 ordinary shares of the Bank in the form of restricted GDRs to the Group's 23 executives pursuant to the EECP in respect of the year ended 31 December 2006. The awards are subject to three year vesting. The Group considers 2 June 2006 as the grant date for 190,000 of the shares in the form of restricted GDRs and 16 February 2007 as the grant date for the remaining 77,550 of ordinary shares in the form of restricted GDRs. The Bank estimates that the fair value of the shares on 16 February 2007 was 45.74 Georgian Lari per share.

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

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

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

26. Share-based Payments (continued)

Based on the Bank's share price performance calculated by an independent consultant for 2008 and 2007, the Bank estimated the annual expense of share-based compensation related to 2008 annual grant equal to nil.

The Bank estimated the annual expense of share-based compensation related to 2007 top and annual grants equal 300% of the annual base salary of each executive in 2007. Aggregate expense associated with this scheme comprised GEL 3,339 in 2007.

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

The weighted average fair value of share-based awards at the measurement date comprised Georgian Lari 39.5 per share in 2008 (2007: Georgian Lari 28.95.).

The Group's total share-based payment expenses for 2008 comprised GEL 7,820 (2007: 8,992).

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

Ordinary shares	***2008***	***2007***
Number of shares awarded	29,298	145,502
- Among them, to top management	9,365	145,502
Number of shares vested	16,010	145,502
Weighted average value at grant date, per share (GEL in full amount)	41.5	7.52
Value at grant date, total (GEL)	**1,214**	**1,094**
Expense recognized during the year (GEL)	**(1,017)**	**(1,094)**

GDRs	***2008***	***2007***
Number of GDRs awarded	258,139	322,167
- Among them, to top management	198,139	244,617
Number of GDRs vested	282,606	-
Weighted average value at grant date, per share (GEL in full amount)	32.5	28.95
Value at grant date, total (GEL)	**8,391**	**9,328**
Expense recognized during the year (GEL)	**(6,803)**	**(7,898)**

All instruments	***2008***	***2007***
Total number of equity instruments awarded	287,437	467,669
- Among them, to top management	207,504	390,119
Total number of equity instruments vested	298,615	145,502
Weighted average value at grant date, per share (GEL in full amount)	33.4	22.28
Value at grant date, total (GEL)	**9,606**	**10,422**
Total expense recognized during the year (GEL)	**(7,820)**	**(8,992)**

(Thousands of Georgian Lari)

27. Risk Management

Introduction

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

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

Risk management structure

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

Supervisory board

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

Management board

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

Audit committee

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

Bank treasury

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

Internal audit

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

Risk measurement and reporting systems

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

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

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

(Thousands of Georgian Lari)

27. Risk Management (continued)

Introduction (continued)

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

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

Risk mitigation

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

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

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

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

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

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitments risks

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

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

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

	Notes	Gross maximum exposure 2008	Gross maximum exposure 2007
Cash and cash equivalents (excluding cash on hand)	7	233,128	312,060
Amounts due from credit institutions	8	99,633	154,560
Loans to customers	9	2,039,022	1,675,681
Finance lease receivables	10	41,605	46,674
Investment securities:			
-Available-for-sale	11	33,737	42,387
-Held-to-maturity	11	22,845	192,464
		2,469,970	**2,423,826**
Financial commitments and contingencies	22	397,322	208,299
Total credit risk exposure		**2,867,292**	**2,632,125**

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

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

Credit quality per class of financial assets

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

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

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

	Notes	*Neither past due nor impaired* High grade 2007	*Neither past due nor impaired* Standard grade 2007	*Neither past due nor impaired* Sub-standard grade 2007	Past due or individually impaired 2007	Total 2007
Amounts due from credit institutions	8	154,560	–	–	–	154,560
Loans to customers:	9					
Corporate lending		855,112	32,539	110	48,907	936,668
Consumer lending		242,844	64,561	2,793	20,884	331,082
Residential mortgages		224,065	7,486	71	4,775	236,397
Micro-loans		147,052	1,419	59	3,906	152,436
Gold Pawn Loans		28,158	–	–	–	28,158
Other		2,062	15,849	272	1,686	19,869
		1,499,293	**121,854**	**3,305**	**80,158**	**1,704,610**
Finance lease receivables	10	6,430	2,865	234	37,961	47,490
Investment securities:	11					
Available-for-sale		42,387	–	–	–	42,387
Held-to-maturity		192,464	–	–	–	192,464
		234,851	**–**	**–**	**–**	**234,851**
Total		**1,895,134**	**124,719**	**3,539**	**118,119**	**2,141,511**

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

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

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

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

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

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

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

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

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

	Less than 30 days 2007	31 to 60 days 2007	61 to 90 days 2007	More than 90 days 2007	Total 2007
Amounts due from credit institutions	–	–	–	564	564
Loans to customers:					
Commercial lending	22,549	1,774	80	4,371	28,774
Micro-loans	2,175	–	–	–	2,175
Consumer lending	10,008	58	40	1,180	11,286
Residential mortgages	2,640	47	31	–	2,718
Other	567	616	411	–	1,594
Finance lease receivables	720	34,599	17	867	36,203
Total	**38,659**	**37,094**	**579**	**6,982**	**83,314**

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

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

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

	2008	2007
Loans to customers:		
Commercial lending	384,404	10,651
Micro loans	5,952	638
Consumer lending	19,384	3,221
Residential mortgages	6,193	5,625
Other	8,194	762
Financial lease receivables	3,173	–
Total	**427,300**	**20,897**

27. Risk Management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 150 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

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

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

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

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

	2008				*2007*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	153,236	208,997	35,358	397,591	105,393	207,049	93,328	405,770
Amounts due from credit institutions	64,081	3,414	32,138	99,633	140,852	609	13,099	154,560
Loans to customers	2,008,652	–	30,370	2,039,022	1,452,649	–	223,032	1,675,681
Finance lease receivables	37,405	–	4,200	41,605	46,674	–	–	46,674
Investment securities								
- available-for-sale	33,420	201	116	33,737	6,234	231	35,922	42,387
- held-to-maturity	22,845	–	–	22,845	184,201	–	8,263	192,464
All other assets	586,214	1,210	37,050	624,474	396,938	17,281	21,856	436,075
	2,905,853	**213,822**	**139,232**	**3,258,907**	**2,332,941**	**225,170**	**395,500**	**2,953,611**
Liabilities:								
Amounts due to credit institutions	129,091	1,080,179	7,452	1,216,722	104,731	791,054	6,010	901,795
Amounts due to customers	1,152,244	2,477	38,403	1,193,124	1,085,505	–	269,971	1,355,476
All other liabilities	118,978	7,216	4,018	130,212	116,455	6,673	15,221	138,349
	1,400,313	**1,089,872**	**49,873**	**2,540,058**	**1,306,691**	**797,727**	**291,202**	**2,395,620**
Net balance sheet position	**1,505,540**	**(876,050)**	**89,359**	**718,849**	**1,026,250**	**(572,557)**	**104,298**	**557,991**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Liquidity risk and funding management

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

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

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

	2008	*2007, %*
Average liquidity ratio for the year	31.4%	47.5%
Maximum Liquidity ratio	48.6%	92.7%
Minimum Liquidity ratio	20.8%	19.5%

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

Liquid assets - comprise cash, cash equivalents and other assets that have character to be immediately converted into cash. Those assets include investment securities issued by Georgian Government plus Certificates of Deposit issued by NBG up to 10% of liabilities used in calculation of average liquidity ratio and not including amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits, amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

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

Financial liabilities As at 31 December 2007	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	128,421	192,214	679,129	201,732	1,201,496
Amounts due to customers	1,006,758	302,902	77,374	3,785	1,390,819
Debt securities issued and other liabilities	5,130	4,153	4,220	149	13,652
Total undiscounted financial liabilities	**1,140,309**	**499,269**	**760,723**	**205,666**	**2,605,967**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Liquidity risk and funding management (continued)

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

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2008	187,311	94,245	166,843	23,627	472,026
2007	85,305	76,578	55,364	18,429	235,676

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

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

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

Market risk

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

Interest rate risk

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2008. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2008 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve. During 2008 and 2007 sensitivity analysis did not reveal significant potential effect on Group Equity.

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

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

(Thousands of Georgian Lari)

27. Risk Management (continued)

Market risk (continued)

Currency	*Increase in basis points 2007*	*Sensitivity of net interest income 2007*	*Sensitivity of equity 2007*
UAH	0.75%	–	267
EUR	0.75%	(71)	–
USD	0.75%	(3,097)	–

Currency	*Decrease in basis points 2007*	*Sensitivity of net interest income 2007*	*Sensitivity of equity 2007*
UAH	-1.25%	–	(445)
EUR	-1.50%	142	–
USD	-1.25%	5,393	–

Currency risk

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2008 on its trading and non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During 2008 and 2007 sensitivity analysis did not reveal significant potential effect on Group Equity.

Currency	*Change in currency rate in % 2008*	*Effect on profit before tax 2008*	*Effect on equity 2008*	*Change in currency rate in % 2007*	*Effect on profit before tax 2007*	*Effect on equity 2007*
EUR	14.9%	(832)	–	4.6%	104	–
GBP	24.9%	17	–	5.0%	(137)	–
RUR	0.3%	(6)	–	0.1%	24	–
UAH	2.8%	8	–	0.7%	(38)	–
USD	9.2%	(1,216)	–	3.5%	(2,450)	–

Prepayment risk

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

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

The effect on (loss) profit before tax for one year and on equity, is as follows:

	Effect on net interest income	*Effect on equity*
2008	(34,546)	
2007	(36,527)	–

(Thousands of Georgian Lari)

27. Risk Management (continued)

Operational risk

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

Operating environment

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

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. During the year there have been major events that have an effect on the Bank's operations – the military conflict in August 2008 involving Georgia, the Russian Federation and South Ossetia, and the financial crisis which significantly affected global economies from last quarter of 2008. Though no direct damage has been sustained by the Bank during the military conflict, it had caused significant damage to the Georgian economy and the Fitch and S&P country ratings were downgraded. The ongoing global financial crisis and the military conflict have resulted in capital markets instability, deterioration of liquidity in the banking sector, and tighter credit conditions within Georgia. The Georgian Government has introduced a range of stabilization measures aimed at ensuring solvency and providing liquidity and supporting refinancing of foreign debt for Georgian banks and companies.

While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

(Thousands of Georgian Lari)

28. Fair Values of Financial Instruments

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

	Carrying value 2008	*Fair value 2008*	*Unrecognised loss 2008*	*Carrying value 2007*	*Fair value 2007*	*Unrecognised loss 2007*
Financial assets						
Cash and cash equivalents	397,591	397,591	–	405,770	405,770	–
Amounts due from credit institutions	99,633	99,633	–	154,560	154,560	–
Loans to customers	2,039,022	1,991,449	(47,573)	1,675,681	1,675,681	–
Finance lease receivables	41,605	41,605	–	46,674	46,674	–
Investment securities:						
- available-for-sale	33,737	33,737	–	42,387	42,387	–
- held-to-maturity	22,845	22,845	–	192,464	191,572	(892)
Financial liabilities						
Amounts due to credit institutions	1,216,722	1,216,722	–	901,795	901,795	–
Amounts due to credit institutions	1,193,124	1,201,746	(8,622)	1,355,476	1,355,476	–
Debt securities issued	5	5	–	4,993	4,993	–
Total unrecognised change in unrealised fair value			**(56,195)**			**(892)**

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

(Thousands of Georgian Lari)

28. Fair Values of Financial Instruments (Continued)

Financial instruments recorded at fair value

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involves the use of non-market observable inputs.

	Quoted market price 2008	*Valuation techniques – market observable inputs 2008*	*Valuation techniques – non-market observable inputs 2008*	*Total 2008*
Financial assets				
Investment securities – available-for-sale	17,644	16,093	–	33,737
Other assets – trading securities owned	92	–	–	92
	17,736	**16,093**	–	**33,829**

	Quoted market price 2007	*Valuation techniques – market observable inputs 2007*	*Valuation techniques – non-market observable inputs 2007*	*Total 2007*
Financial assets				
Investment securities – available-for-sale	36,770	5,617	–	42,387
Other assets – trading securities owned	6,342	–	–	6,342
	43,112	**5,617**	**–**	**48,729**

(Thousands of Georgian Lari)

29. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 27 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2008			*2007*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Financial assets						
Cash and cash equivalents	397,591	–	397,591	405,770	–	405,770
Amounts due from credit institutions	87,205	12,428	99,633	153,893	667	154,560
Loans to customers	897,167	1,141,855	2,039,022	929,246	746,435	1,675,681
Finance lease receivables	33,375	8,230	41,605	31,225	15,449	46,674
Investment securities:						
– available–for–sale	33,737	–	33,737	7,787	34,600	42,387
– held–to–maturity	22,845	–	22,845	176,466	15,998	192,464
Total	**1,471,920**	**1,162,513**	**2,634,433**	**1,704,387**	**813,149**	**2,517,536**
Financial liabilities						
Amounts due to credit institutions	402,094	814,628	1,216,722	146,815	754,980	901,795
Amounts due to customers	1,124,598	68,526	1,193,124	1,280,911	74,565	1,355,476
Debt securities issued and other liabilities	1,463	5	1,468	9,283	4,369	13,652
Total	**1,528,155**	**883,159**	**2,411,314**	**1,437,009**	**833,914**	**2,270,923**
Net	**(56,235)**	**279,354**	**223,119**	**267,378**	**(20,765)**	**246,613**

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

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

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

As of 31 December 2008 deposits amounted to GEL 1,193,124 (2007: GEL 1,355,476) and represented 47% (2007: 57%) of Group's total liabilities. These borrowings continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As of 31 December 2008 amounts owed to other credit institutions amounted to GEL 1,216,722 (2006: GEL 901,795) and represented 48% (2007: 38%) of total liabilities.

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

(Thousands of Georgian Lari)

30. Related Party Disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

	2008			2007		
	Parent	*Asso-ciates*	*Key management personnel*	*Parent*	*Asso-ciates*	*Key management personnel*
Loans outstanding at 1 January, gross	**–**	**13,274**	**510**	**–**	**6,010**	**312**
Loans issued during the year	1,339	12,085	8,229	–	14,237	507
Loan repayments during the year	(1,074)	(9,709)	(3,375)	–	(6,649)	(299)
Other movements	–	5,994	208	–	–	–
Loans outstanding at 31 December, gross	**265**	**21,644**	**5,572**	**–**	**13,598**	**520**
Less: allowance for impairment at 31 December		(3,181)	(1,064)	–	(324)	(10)
Loans outstanding at 31 December, net	**265**	**18,463**	**4,508**	**–**	**13,274**	**510**
Interest income on loans	–	2,125	468	–	1,102	58
Loan impairment charge	–	3,099	120	–	139	4
Deposits at 1 January	**12,733**	**4,485**	**626**	**11,281**	**2,944**	**7,252**
Deposits received during the year	–	79,356	53,081	1,452	95,488	12,038
Deposits repaid during the year	–	(83,638)	(35,450)	–	(93,947)	(18,664)
Other movements	–	(26)	67	–	–	–
Deposits at 31 December	**12,733**	**177**	**18,324**	**12,733**	**4,485**	**626**
Current accounts at 31 December						
Interest expense on deposits	–	2	14	746	178	97
Other income	767	_	32	–	–	852

Compensation of key management personnel was comprised of the following:

	2008	2007
Salaries and other benefits	9,975	16,104
- Among them, termination benefits	10	4,876
Share-based payments compensation	7,820	8,992
- Among them, termination benefits	–	1,944
Social security costs	94	4,124
Recruitment costs	28	20
Total key management compensation	**17,917**	**29,240**

The number of key management personnel as 31 December 2008 was 105 (2007: 70).

(Thousands of Georgian Lari)

31. Capital Adequacy

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

During the past year, the Bank and the Group had complied in full with all its externally imposed capital requirements.

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

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

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets, computed based on the special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As of 31 December 2008 and 2007, the Bank's capital adequacy ratio on this basis was as follows:

	2008	*2007*
Core capital	573,146	368,959
Supplementary capital	162,902	162,867
Less: Deductions from capital	(269,427)	(166,230)
Total regulatory capital	**466,621**	**365,596**
Risk-weighted assets	**3,458,133**	**2,796,443**
Total capital adequacy ratio	**13.5%**	**13.1%**

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

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2008 and 2007, follows:

	2008	*2007*
Tier 1 capital	651,826	464,516
Tier 2 capital	232,840	159,914
Less: Deductions from capital	(249,373)	(214,615)
Total regulatory capital	**635,293**	**409,815**
Risk-weighted assets	**2,560,696**	**1,859,330**
Total capital ratio	24.8%	22.0%
Tier 1 capital ratio	25.5%	25.0%
Minimum capital adequacy ratio	**8%**	**8%**

(Thousands of Georgian Lari)

32. Events Subsequent to Balance Sheet Date

During the 1st quarter of 2009 the Bank obtained long-term unsecured funding from the European Bank for Reconstruction and Development ("EBRD") and International Financial Corporation ("IFC"), with a total combined nominal value of USD 200 million, comprising of the following facilities:

IFC funded

- USD 50 million senior loan at LIBOR + 5.5% annual interest rate and maturity of 55 months;
- USD 24 million subordinated debt at LIBOR + 10% annual interest rate and maturity of 120 months; and
- USD 26 million subordinated, convertible loan at LIBOR + 8% annual interest rate and maturity of 120 months;

EBRD funded

- USD 50 million senior loan at LIBOR + 5.5% annual interest rate and maturity of 61 months;
- USD 24 million subordinated debt at LIBOR + 10% annual interest rate and maturity of 120 months; and
- USD 26 million subordinated, convertible loan at LIBOR + 8% annual interest rate and maturity of 120 months;