Bank Constanta

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2009

CONTENTS

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Statement of Financial Position....1
Statement of Comprehensive Income....2
Statement of Changes in Equity....3
Statement of Cash Flows....4

Notes to the Financial Statements

1 Introduction....5
2 Operating Environment of the Bank....5
3 Summary of Significant Accounting Policies....6
4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies....13
5 Adoption of New or Revised Standards and Interpretations....14
6 New Accounting Pronouncements....16
7 Cash and Cash Equivalents....18
8 Loans and Advances to Customers....19
9 Other Financial Assets....23
10 Premises, Equipment and Intangible Assets....23
11 Other Assets....24
12 Customer Accounts....24
13 Other Liabilities....25
14 Other Borrowed Funds....25
15 Share Capital....27
16 Interest Income and Expense....27
17 Fee and Commission Income and Expense....28
18 Other Operating Income....28
19 Administrative and Other Operating Expenses....28
20 Income Taxes....29
21 Financial Risk Management....30
22 Management of Capital....36
23 Contingencies and Commitments....36
24 Derivative Financial Instruments....37
25 Fair Value of Financial Instruments....38
26 Presentation of Financial Instruments by Measurement Category....39
27 Related Party Transactions....40
28 Events After the End of the Reporting Period....41

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Central Asia and Caucasus B.V.
Georgia branch
#7 Bambis Rigi street.
Business Center Mantashevi
0105 Tbilisi, Georgia
Telephone [995] 32 50 80 50
Facsimile [995] 32 50 80 60
www.pwc.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of Bank Constanta:

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

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these 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 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.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these 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 financial statements are free from material misstatements.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 controls 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.

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

Opinion

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

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

17 May 2010
Tbilisi, Georgia

In thousands of GEL	Note	31 December 2009	31 December 2008
Assets			
Cash and cash equivalents	7	5,147	4,529
Loans and advances to customers	8	51,740	55,923
Other financial assets	9	396	463
Deferred income tax asset	20	464	540
Intangible assets	10	586	367
Premises and equipment	10	7,235	8,465
Other assets	11	404	167
Total assets		**65,972**	**70,454**
Liabilities			
Customer accounts	12	993	1,122
Other financial liabilities		44	77
Other liabilities	13	402	313
Other borrowed funds	14	52,844	57,411
Total liabilities		**54,283**	**58,923**
EQUITY			
Share capital	15	15,675	15,675
Accumulated deficit		(3,986)	(4,144)
Total equity		**11,689**	**11,531**
Total liabilities and equity		**65,972**	**70,454**

Approved for issue and signed on behalf of the Board of Directors on 17 May 2010.

Levan Lebanidze
General Director

Eka Tsanava
Chief Accountant

In thousands of GEL	Note	2009	Period from inception till 31 December 2008
Interest income	16	15,657	15,664
Interest expense	16	(4,549)	(5,149)
Net interest income		**11,108**	**10,515**
Provision for loan impairment	8	(1,651)	(2,145)
Net interest income after provision for loan impairment		**9,457**	**8,370**
Fee and commission income	17	253	3
Fee and commission expense	17	(45)	(101)
Gains less losses from trading in foreign currencies		225	283
Foreign exchange translation (losses net of gains) / gains less		(39)	289
Gains less loss / (losses net of gains) arising from fair value of financial assets through profit and loss		12	(369)
Other operating income	18	552	139
Administrative and other operating expenses	19	(10,181)	(13,298)
Profit / (loss) before tax		**234**	**(4,684)**
Income tax expense	20	(76)	540
Profit / (loss) for the year		**158**	**(4,144)**
Total comprehensive income for the year		**158**	**(4,144)**

In thousands of GEL	Share capital	Accumulated deficit	Total
At 8 November 2007 (inception date)	**-**	-	**-**
Share capital increase	15,675	-	**15,675**
Total comprehensive loss for 2008	-	(4,144)	**(4,144)**
Balance at 31 December 2008	**15,675**	**(4,144)**	**11,531**
Total comprehensive income for 2009	-	158	**158**
Balance at 31 December 2009	**15,675**	**(3,986)**	**11,689**

In thousands of GEL	Note	2009	2008
Cash flows from operating activities			
Interest received		14,956	14,069
Interest paid		(4,794)	(4,355)
Fees and commissions received	17	253	3
Fees and commissions paid	17	(45)	(101)
Income received from trading in foreign currencies		225	283
Other operating income received		1,267	925
Staff costs paid	19	(5,328)	(6,560)
Administrative and other operating expenses paid		(3,570)	(4,916)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**2,964**	**(652)**
Net (increase)/decrease in loans and advances to customers		2,518	(56,941)
Net (increase)/decrease in other financial assets		67	(463)
Net increase in other assets		(237)	(118)
Net increase/(decrease) in customer accounts	12	(129)	1,122
Net increase/(decrease) in other financial liabilities		(33)	77
Net increase in other liabilities		89	180
Net cash from/(used in) operating activities		**5,239**	**(56,795)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		-	(54)
Acquisition of premises and equipment	10	(367)	(10,445)
Proceeds from disposal of premises and equipment	10	95	74
Net cash used in investing activities		**(272)**	**(10,425)**
Cash flows from financing activities			
Proceeds from other borrowed funds	14	14,329	59,637
Repayment of other borrowed funds	14	(18,650)	(3,133)
Issue of ordinary shares	15	-	15,675
Net cash from/(used in) financing activities		**(4,321)**	**72,179**
Effect of exchange rate changes on cash and cash equivalents		**(28)**	**(431)**
Net increase in cash and cash equivalents		**618**	**4,528**
Cash and cash equivalents at the beginning of the period		**4,529**	**-**
Cash and cash equivalents at the end of the year		**5,147**	**4,529**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 for Constanta Bank (the “Bank”).

The Bank was incorporated on 8 November 2007 and is domiciled in Georgia. The Bank is a closed joint stock company limited by shares issued and was set up in accordance with Georgian regulations.

As at 31 December 2009 and 2008, the Bank’s immediate parent company was LTD Constanta Plus with ownership interest of 77.45%, the ultimate parent was Microfinance Organisation Constanta Foundation (“the Foundation”). The founders transferred their authority to manage the Foundation to the Governing Board of the Foundation represented by Tamar Lebanidze, Manana Jakhua, Gela Vardziashvili, and Natela Turnava.

Principal activity. The Bank’s principal business activity is commercial and retail banking operations within Georgia. The Bank has operated under a general banking licence issued by National Bank of Georgia (“NBG”) since 3 July 2008. The Bank has 22 service centers within Georgia (2008: 21). As at 31 December 2009, the Bank had 320 employees (2008: 332).

Registered address and place of business. The Bank’s registered address is: 115 Tsinamdzgvrishvili Street, Tbilisi, 0164, Georgia.

Presentation currency. These financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise stated.

2 Operating Environment of the Bank

The year 2009 was another challenging year for Georgia, as the armed conflict in August 2008 and the global financial crisis had a significant impact on the country. In the first half of the year the volatile political situation, lower investment, both foreign and domestic, and very limited bank lending resulted in a slow-down of economic activity in the country. The government was able to keep the economy afloat by utilizing initial donor funds primarily in infrastructure projects and social programs. In the second half of the year the political situation showed signs of stability and the economy showed tentative signs of recovery, but the external environment remains weak in terms of export market growth, and uncertainty in the recovery of private capital inflows. Furthermore, domestic credit conditions were still very tight, although interest rates have started coming down.

There was economic downturn in 2009 with 4% decrease in GDP. This downturn would have been even greater without the USD 4.5 billion pledged by international donors. The annual inflation rate has been kept relatively low at 3%, compared to 5.5% in 2008 and 11% in 2007. Moreover, in September 2009 Fitch Ratings affirmed Georgia's long-term foreign and local currency Issuer Default Ratings at 'B+', and the Country Ceiling was upgraded from 'B+' to 'BB-' with stable outlook – the rating that Georgia had prior to armed conflict in August 2008. The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. Internal and regional political stability is necessary for the successful development of the economy and it is vital to continuously improve the local investment climate and put Georgia back onto the map for investors.

Borrowers of the Bank were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments. The market in Georgia for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period. Under IFRS, impairment losses on financial assets expected as a result of future events, no matter how likely, cannot be recognised until such events arise. The amount of provision for impaired loans is based on management's appraisals of these assets at the end of the reporting period after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Management is unable to reliably determine the effects on the Bank's future financial position of any potential further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Bank’s business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below.

Going concern. Management prepared these financial statements on a going concern basis. Refer to Note 4.

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the NBG. Mandatory cash balances with NBG are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

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

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

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

3 Summary of Significant Accounting Policies (Continued)

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

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

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

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

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

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in inventories within other assets. Repossessed collateral are subsequently remeasured at lower of cost or net realizable value.

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

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

Investment securities available for sale are carried at fair value. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

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

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

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

	Useful lives in years
Premises	20 to 50
Equipment and motor vehicles	5 to 10
Leasehold improvements	over the term of the underlying lease

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

Intangible assets. The Bank’s intangible assets other than goodwill have definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 to 20 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

3 Summary of Significant Accounting Policies (Continued)

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

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

Grants. Grants from the international financial institutions are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Bank will comply with all attached conditions. Grants are included in non-current liabilities as deferred income and are credited to profit or loss when underlying conditions are performed and formal approval obtained from grantor.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

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

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting.

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

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. Georgian legislation identifies the basis of distribution as the current year net profit.

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

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

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

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

Capitalisation of borrowing costs. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. The Bank capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The commencement date for capitalisation is when (a) the Bank incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Interest or other investment income is not deducted in arriving at the amount of borrowing costs available for capitalisation, except where the Bank obtains specific borrowings for the purpose of acquiring a qualifying asset and has investment income on the temporary investment of funds obtained through such specific borrowings.

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

Monetary assets and liabilities are translated into functional currency at the official exchange rate at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2009, the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.6858 (2008: USD 1 = GEL 1.667); EUR 1 = GEL 2.4195 (2008: EUR 1 = GEL 2. 3648).

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

3 Summary of Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments and social contributions.

Comparative figures. Comparative figures are presented for the period from 8 November 2007 (inception date) ended at 31 December 2008. Management believes such presentation of 2008 results approximates annual results.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The reclassifications in the statement of financial position and statement of comprehensive income had an impact on information in notes 7, 9, 10, 11, 13, 14, 19, 18, and had no impact on any other captions in the statement of financial position, statement of comprehensive income and related note disclosures. There was no opening statement of financial position as of 8 November 2007.

The effect of reclassifications for presentation purposes was as follows:

In thousands of GEL	**As originally presented**	**Adjustment**	**As adjusted**
Statement of financial position			
Cash and cash equivalents	2,488	2,041	4,529
Due from other banks	2,041	(2,041)	-
Financial assets at fair value through profit or loss	250	(250)	-
Investments available for sale	54	(54)	-
Other financial assets	-	463	463
Premises equipment and intangible assets	8,465	367	8,832
Other assets	693	(526)	167
Due to other banks	57,544	(57,544)	-
Other borrowed funds	-	57,411	57,411
Other liabilities	257	56	313
Other financial liabilities	-	77	77
Statement of comprehensive income			
Provision for impairment losses on other operations	(35)	35	-
Administrative and other operating expenses	(13,263)	(35)	(13,298)
Interest income	14,859	805	15,664
Other operating income	944	(805)	139

Significant changes in presentation were due to the following:

- Placements with other banks with contractual maturity of less than three months in the amount of GEL 2,041 thousand were reclassified as cash and cash equivalents to confirm with the Bank's policy for classification of cash and cash equivalents.
- Due to other banks in the amount of GEL 57,544 thousand were reclassified to other borrowed funds because of longer term nature of such financing.
- Intangible assets of GEL 367 thousand were reclassified from other assets to premises, equipment and intangible assets.
- Unearned grant in amount of GEL 133 thousand was reclassified from due to banks to other liabilities being non-financial liability.
- Earned fines and penalties on overdue loans and advances to customers of GEL 805 thousand were reclassified as interest income from other operating income.

In 2009 management changed the presentation of statement of cash flows from indirect to direct method as preferred method under IAS 7. Accordingly, presentation of 2008 statement of cash flows has been reclassified to conform with 2009 presentation. Further, management reclassified due to other banks to other borrowed funds because the long term of nature of such borrowing and reclassified their presentation from operating activity into financing activity. Also, management changed classification of cash and cash equivalents to include placements with other banks with original maturities of less than three months.

3 Summary of Significant Accounting Policies (Continued)

Effect of above reclassification to the 2008 statement of cash flows described below:

In thousands of GEL	As originally presented	Adjustment	As adjusted
Statement of cash flows			
Cash flows from operating activities	(2,730)	(54,463)	(57,193)
Cash flows from financing activities	15,675	56,504	72,179
Change in classification of cash and cash equivalents	2,487	2,042	4,529

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Bank.

The Bank was established on 8 November 2007 and started active banking operations since then. For the period from inception till 31 December 2008 the Bank has had a total comprehensive loss of GEL 4,144 thousand and had a negative cumulative liquidity gap in the period up to 12 months of GEL 8,136 thousand as at 31 December 2008 (Note 21). However, for the year ended 31 December 2009, the Bank has a total comprehensive profit of GEL 158 thousand and a positive cumulative liquidity gap in the period up to 12 months of GEL 4,140 thousand as at 31 December 2009 (Note 21). The management believes the Bank is able to sustain profitability and a positive liquidity level in the foreseeable future.

As at 31 December 2009 and 2008, the Bank was in breach of regulatory capital adequacy requirements of NBG. The non-compliance with these externally imposed capital requirements, may lead to imposition of restriction of distribution of dividends by regulatory body. As of the report date and during 2009 and 2008, no penalties and fines or other adverse actions were imposed by NBG. As at 31 March 2010, the Bank is compliant with regulatory capital adequacy requirements as disclosed in Note 28. The Bank's management believes that in accordance with the NBG regulations such noncompliance will not lead to the imposition of penalties and fines or other adverse actions by NBG and accordingly would not adversely affect the ability of the Bank to continue as going concern.

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of GEL 55 thousand (2008: GEL 70 thousand), respectively.

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

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are stabilised earnings in forthcoming years.

5 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Bank from 1 January 2009:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The Bank is not required to present segment reporting.

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Bank has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Bank's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on the Bank.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on these financial statements.

IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognize revenue on such transactions. The amendment did not have any material impact on these financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss for the year rather than as a recovery of the investment. The amendment did not have an impact on these financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the ‘at fair value through profit or loss’ category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognizing and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Bank is not eligible to apply the IFRS for SMEs due to the public accountability of its banking business.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Bank's financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2010 or later periods and which the Bank has not early adopted:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss for the year when the entity settles the dividend payable. IFRIC 17 is not relevant to the Bank's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Bank's financial statements.

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. This Amendment does not have any impact on the Bank's financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Bank does not expect the amended standard to have a material effect on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to re-measure its previously held equity interest in the acquire at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill.

6 New Accounting Pronouncements (Continued)

An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Bank as it does not expect a business combination to occur.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Bank's financial statements as the Bank does not apply hedge accounting.

IFRS 1, First-time Adoption of International Financial Reporting Standards **(following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).** The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Bank concluded that the revised standard does not have any effect on its financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Bank does not expect the amendments to have any material effect on its financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Bank's financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognized asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Bank does not expect the amendments to have any material effect on its financial statements.

6 New Accounting Pronouncements (Continued)

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Bank does not expect the amendments to have any material effect on its financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows: The Bank does not expect the amendments to have any material effect on its financial statements.

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Interpretation will not have any impact on the Bank's financial statements as the Bank does not extinguish its financial liabilities with equity instruments.

The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

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

7 Cash and Cash Equivalents

In thousands of GEL	**2009**	**2008**
Cash on hand	1,985	2,437
Cash balances with National Bank of Georgia ("NBG")	524	51
Correspondent accounts and overnight placements with other banks	2,638	2,041
Total cash and cash equivalents	**5,147**	**4,529**

The balances with NBG as at 31 December 2009 include mandatory minimum reserve with NBG of GEL 31 thousand (2008: GEL 21 thousand).

Interest rate analysis of cash and cash equivalents is disclosed in Note 21.

7 Cash and Cash Equivalents (Continued)

The credit quality of balances with NBG represented by the credit rating of "B+" assigned by Fitch for the Government of Georgia.

The credit quality of correspondent accounts and overnight placements balances may be summarised based on Fitch ratings as follows at 31 December:

In thousands of GEL	2009	2008
AA-	297	293
B	9	66
CCC	84	-
Not rated – subsidiary bank of major international bank	2,248	1,663
Total	**2,638**	**2,022**

8 Loans and Advances to Customers

In thousands of GEL	2009	2008
Trade and service	42,600	47,931
Agriculture	5,168	4,503
Production	4,763	4,643
Consumer loans	647	669
Less: Provision for loan impairment	(1,438)	(1,823)
Total loans and advances to customers	**51,740**	**55,923**

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

In thousands of GEL	Trade and service	Agriculture	Production	Consumer loans	Total
Provision for loan impairment at 1 January 2009	**1,275**	**363**	**185**	**-**	**1,823**
Provision for impairment during the year	1,484	80	66	21	1,651
Amounts written off during the year as uncollectible	(1,753)	(157)	(105)	(21)	(2,036)
Provision for loan impairment at 31 December 2009	**1,006**	**286**	**146**	**-**	**1,438**

Movements in the provision for loan impairment during 2008 are as follows:

In thousands of GEL	Trade and service	Agriculture	Production	Consumer loans	Total
Provision for loan impairment at 1 January 2008	**-**	**-**	**-**	**-**	**-**
Provision for impairment during the period	1,553	387	202	3	2,145
Amounts written off during the year as uncollectible	(277)	(25)	(17)	(3)	(322)
Provision for loan impairment at 31 December 2008	**1,275**	**363**	**185**	**-**	**1,823**

8 Loans and Advances to Customers (Continued)

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

In thousands of GEL	2009 Amount	2009 %	2008 Amount	2008 %
Trade and service	42,600	80%	47,931	83%
Agriculture	5,168	10%	4,503	8%
Production	4,763	9%	4,643	8%
Other	647	1%	669	1%
Total loans and advances to customers (before impairment)	**53,178**	**100%**	**57,746**	**100%**

At 31 December 2009 the Bank had 15 borrowers (2008: 10 borrowers) with aggregated loan amounts above GEL 100 thousand. The total aggregate amount of these loans was 2,273 thousand (2008: GEL 1,676 thousand) or 4,3% of the gross loan portfolio (2008: 2,9%).

Information about collateral at 31 December 2009 is as follows:

In thousands of GEL	Trade and service	Agriculture	Production	Consumer loans	Total
Unsecured loans	122	3	45	5	**175**
Loans collateralized by:					
Guarantees of individuals	22,316	3,038	2,461	220	**28,035**
Real estate	19,907	2,090	2,247	418	**24,662**
Other assets	138	37	9	4	**188**
Precious metals and cash deposits	117	-	1	-	**118**
Total loans and advances to customers	**42,600**	**5,168**	**4,763**	**647**	**53,178**

Information about collateral at 31 December 2008 is as follows:

In thousands of GEL	Trade and service	Agriculture	Production	Consumer loans	Total
Unsecured loans	2,040	99	228	46	**2,413**
Loans collateralized by:					
Guarantees of individuals	30,192	2,725	2,760	128	**35,805**
Real estate	15,328	1,662	1,652	495	**19,137**
Other assets	128	15	1	-	**144**
Precious metals and cash deposits	243	2	2	-	**247**
Total loans and advances to customers	**47,931**	**4,503**	**4,643**	**669**	**57,746**

Other assets mainly include equipment. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

8 Loans and Advances to Customers (Continued)

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

In thousands of GEL	Trade and service	Agriculture	Production	Consumer loans	Total
Neither past due nor impaired					
- Borrowers with credit history over two years	1,186	71	159	230	**1,646**
- New borrowers:					
Individual loans up to GEL 50 thousand	35,222	4,525	4,118	387	**44,252**
Individual loans above GEL 50 thousand	4,247	298	251	-	**4,796**
- Loans renegotiated in 2009	468	8	47	30	**553**
Total neither past due nor impaired	**41,123**	**4,902**	**4,575**	**647**	**51,247**
Past due but not impaired					
- less than 30 days overdue	653	47	61	-	**761**
- 30 to 60 days overdue	179	18	12	-	**209**
Total past due but not impaired	**832**	**65**	**73**	**-**	**970**
Loans determined to be individually impaired (gross)					
- less than 30 days overdue	190	4	18	-	**249**
- 30 to 90 days overdue	159	42	21	-	**222**
- 91 to 180 days overdue	296	118	76	-	**490**
Total impaired loans (gross)	**645**	**201**	**115**	**-**	**961**
Less impairment provisions	(1,006)	(286)	(146)	-	**(1,438)**
Total loans and advances to customers	**41,594**	**4,882**	**4,617**	**647**	**51,740**

Analysis by credit quality of loans outstanding at 31 December 2008 is as follows:

In thousands of GEL	Trade and service	Agriculture	Production	Consumer loans	Total
Neither past due nor impaired					
- New borrowers:					
Individual loans up to GEL 50 thousand	37,348	3,178	4,124	-	**44,650**
Individual loans above GEL 50 thousand	3,978	343	116	618	**5,055**
Total neither past due nor impaired	**41,326**	**3,521**	**4,240**	**618**	**49,705**
Past due but not impaired					
- less than 30 days overdue	2,791	19	21	-	**2,831**
Total past due but not impaired	**2,791**	**19**	**21**	**-**	**2,831**
Loans determined to be individually impaired (gross)					
- less than 30 days overdue	3,319	955	367	47	**4,688**
- 30 to 90 days overdue	253	3	14	1	**271**
- 91 to 180 days overdue	242	5	1	3	**251**
Total impaired loans (gross)	**3,814**	**963**	**382**	**51**	**5,210**
Less impairment provisions	(1,275)	(363)	(185)	-	**(1,823)**
Total loans and advances to customers	**46,656**	**4,140**	**4,458**	**669**	**55,923**

8 Loans and Advances to Customers (Continued)

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired. Because the loans are individually insignificant as at 31 December 2009 and 2008, the individual impairment calculation is performed on the whole amount for efficiency purposes.

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2009 was as follows:

In thousands of GEL	**Trade and service**	**Agriculture**	**Production**	**Consumer loans**	**Total**
Fair value of collateral - loans past due but not impaired					
- Real estate	1,182	120	70	-	1,372
Fair value of collateral - individually impaired loans					
- Real estate	662	280	234	-	1,176
Total	**1,844**	**400**	**304**	**-**	**2,548**

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2008 was as follows:

In thousands of GEL	**Trade and service**	**Agriculture**	**Production**	**Consumer loans**	**Total**
Fair value of collateral - loans past due but not impaired					
- Real estate	235	11	30	-	**276**
- Other assets	2	-	-	-	**2**
Fair value of collateral - individually impaired loans					
- Real estate	5,008	649	428	63	**6,148**
- Other assets	113	6	2	-	**121**
- Precious metals and cash deposits	6	-	-	-	**6**
Total	**5,363**	**666**	**460**	**63**	**6,552**

The fair value of real estate at the end of the reporting period was estimated by indexing the values determined by the Bank's internal credit department staff at the time of loan inception for the average increases in real estate prices by city and region. The fair value of other real estate and other assets was determined by the Bank's credit department using the Bank's internal guidelines. It is impracticable to determine the fair values of guarantees of individuals as at 31 December 2009 and 2008.

Refer to Note 25 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 21. Information on related party balances is disclosed in Note 27.

9 Other Financial Assets

In thousands of GEL	2009	2008
Other receivables	330	159
Investments available for sale	54	54
Financial assets at fair value through profit or loss (Note 24)	12	250
Total other financial assets	**396**	**463**

Investments available for sale

The Bank together with 9 other Georgian banks established JSC United Clearing Center ("the Company") in October 2008. The Bank owns 6,25% of the Company as at 31 December 2009 (2008: 6.25%).

The investee has not published recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible. The Bank's management could not reliably estimate the fair value of these equity investment securities. The Bank does not intend to dispose of these shares in foreseeable futures. Management could not reliably estimate the fair value of the Bank's investment in these shares. The equity investments are carried at cost of GEL 54 thousand (2008: GEL 54 thousand).

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

In thousands of GEL	2009	2008
Current and not impaired		
Other receivables – collected subsequent to year end	330	159
Total other financial assets	**330**	**159**

The primary factors that the Bank considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any.

Refer to Note 25 for the disclosure of the fair value of each class of other financial assets. Information on related party balances is disclosed in Note 27.

10 Premises, Equipment and Intangible Assets

In thousands of GEL	Note	Premises	Office and computer equipment	Construction in progress	Leasehold improve-ments	Total premises and equipment	Computer software licences	Total
Carrying amount at 1 January 2008		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Additions		4,205	3,598	50	2,192	**10,045**	400	**10,445**
Transfers		-	50	(50)	-	**-**	-	**-**
Disposals		-	(253)	-	(17)	**(270)**	-	**(270)**
Depreciation and amortisation charge	19	(240)	(793)	-	(492)	**(1,525)**	(33)	**(1,558)**
Elimination of accumulated depreciation on disposals		-	204	-	11	**215**	-	**215**
Cost at 31 December 2008		4,205	3,395	-	2,175	**9,775**	400	**10,175**
Accumulated depreciation and amortisation		(240)	(589)	-	(481)	**(1,310)**	(33)	**(1,343)**
Carrying amount at 31 December 2008		**3,965**	**2,806**	**-**	**1,694**	**8,465**	**367**	**8,832**

10 Premises, Equipment and Intangible Assets (Continued)

In thousands of GEL	Note	Premises	Office and computer equipment	Construction in progress	Leasehold improve-ments	Total premises and equipment	Computer software licences	Total
Carrying amount at 31 December 2008		**3,965**	**2,806**	**-**	**1,694**	**8,465**	**367**	**8,832**
Additions		-	76	-	12	**88**	278	**366**
Disposals		(223)	(188)	-	(209)	**(620)**	-	**(620)**
Depreciation and amortisation charge	19	(82)	(788)	-	(354)	**(1,224)**	(59)	**(1,283)**
Elimination of accumulated depreciation on disposals		223	180	-	123	**526**	-	**526**
Cost at 31 December 2009		3,982	3,283	-	1,978	**9,243**	678	**9,921**
Accumulated depreciation and amortisation		(99)	(1,197)	-	(712)	**(2,008)**	(92)	**(2,100)**
Carrying amount at 31 December 2009		**3,883**	**2,086**	**-**	**1,266**	**7,235**	**586**	**7,821**

At 31 December 2008, premises carried at GEL 1,102 thousand have been pledged to third parties as collateral with respect to other borrowed funds. Refer to Note 14.

11 Other Assets

In thousands of GEL	2009	2008
Non-current:		
Repossessed collateral	150	45
Current:		
Prepayments	67	34
Inventory	40	29
Tax settlements other than income tax	61	34
Other	86	25
Total current other assets	**254**	**122**
Total other assets	**404**	**167**

Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2, Inventories. The assets were initially recognised at fair value when acquired.

12 Customer Accounts

In thousands of GEL	2009	2008
Legal entities		
- Current/settlement accounts	493	199
Individuals		
- Current/demand accounts	500	418
- Term deposits	-	505
Total customer accounts	**993**	**1,122**

12 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

In thousands of GEL	2009 Amount	2009 %	2008 Amount	2008 %
Individuals	500	50%	923	82%
Trade and services	476	48%	199	18%
Agriculture	7	1%	-	-
Other Sector	10	1%	-	-
Total customer accounts	**993**	**100%**	**1,122**	**100%**

At 31 December 2009 the Bank had 1 customer (2008: 1 customer) with balance above GEL 100 thousand. The aggregate balance of these customers was GEL 121 thousand (2008: GEL 505 thousand) or 13% (2008: 45%) of total customer accounts.

Refer to Note 25 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 21. Information on related party balances is disclosed in Note 27.

13 Other Liabilities

Other liabilities comprise the following:

In thousands of GEL	2009	2008
Unearned grants	401	133
Taxes payable other than income tax	1	180
Total other liabilities	**402**	**313**

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

14 Other Borrowed Funds

In thousands of GEL	2009	2008
International financial institutions	46,055	47,063
Foreign banks and financial institutions	6,789	4,471
Local banks and financial institutions	-	5,877
Total other borrowed funds	**52,844**	**57,411**

14 Other Borrowed Funds (Continued)

The following table provides a detailed breakdown for this item:

In thousands of Gel	**Original Currency**	**Interest Rate**	**Maturity Date**	**Total Outstanding 2009**	**Total Outstanding 2008**
Loans from international Financial Institutions:					
Pettelaar Effectenbewaarbedrijf N.V.	USD	8.65%	31-May-12	6,959	6,868
Blue Orchard Loans for Development S.A.	USD	9.00%	31-May-12	6,777	6,701
Global Commercial Microfinance Consortium	USD	10.40%	3-Nov-10	6,743	6,668
OikoCredit, Ecumenical Development Cooperative Society U.A.	USD	8.50%	15-Apr-13	4,772	5,048
EBRD	USD	6.01%	24-Nov-11	3,661	5,429
OikoCredit, Ecumenical Development Cooperative Society U.A.	USD	8.25%	27-Sep-11	1,715	2,539
Dual Return Fund S.I.C.A.V	USD	9.90%	29-Apr-11	1,714	-
Dual Return Fund S.I.C.A.V	USD	9.90%	11-May-11	1,709	-
Walleberg Invest S.A.	USD	9.90%	27-Feb-11	1,701	-
Credit Suisse Microfinance Fund Management Company	USD	9.50%	9-Jun-11	1,695	1,676
EMF Microfinance Fund	USD	8.75%	23-Dec-10	1,689	-
Pettelaar Effectenbewaarbedrijf N.V.	USD	11.80%	30-Apr-11	1,282	-
Credit Suisse Microfinance Fund Management Company	USD	9.90%	24-Feb-12	872	-
Responsaibility Sicav	USD	9.90%	24-Feb-12	872	-
Finethic Microfinance, Societe en Commandite par Actions (S.C.A.)	USD	9.75%	1-Sep-11	870	-
Dual Return Fund S.I.C.A.V.	USD	9.50%	4-Mar-10	869	1,718
Finethic Microfinance, Societe en Commandite par Actions (S.C.A.)	USD	9.50%	5-Mar-10	868	1,718
Calvert Social Investment Foundation	USD	8.25%	15-May-10	852	842
Dual Return Fund S.I.C.A.V	USD	9.75%	21-Aug-11	436	-
ASN-Novib Funds	USD	10.00%	31-Mar-09	-	3,525
Credit Suisse Microfinance Fund Management Company	USD	9.50%	4-Aug-09	-	1,731
Global Microfinance Facility	USD	9.00%	30-Apr-09	-	2,504
OikoCredit, Ecumenical Development Cooperative Society U.A.	USD	9.50%	11-May-09	-	96
Total loans from international financial institutions				**46,055**	**47,063**
Loans from Non-Resident Commercial Banks:					
Bank IM Bistum Essen e.G.	USD	9.25%	13-Nov-12	3,395	-
Bank IM Bistum Essen e.G.	USD	9.00%	15-May-11	3,394	3,346
StichTing Triodos Doen	USD	9.50%	30-Apr-09	-	1,125
Loans from Resident Commercial Banks:					
JSC Bank Republic	USD	16.00%	10-Feb-09	-	5,877
Total loans from non-resident and resident commercial banks				**6,789**	**10,348**

At 31 December 2009, the Bank was in breach of certain financial covenants stipulated in the loan agreements. In accordance with IAS 1 (Revised) the amount of GEL 18,645 thousand of other borrowed funds were reclassified into the demand category in the liquidity analyses as at 31 December 2009 (2008: GEL 19,251 thousand).

14 Other Borrowed Funds (Continued)

The information on the breached financial covenants as at 31 December 2009 are disclosed below:

Covenants in %	Required	2009 Actual	2008 Actual
Pettelaar Effectenbewaarbedrijf N.V:			
Loans written off / Average gross loans	Less than 2	2.88	0.83
Global Commercial Microfinance Consortium:			
Cost/Unit of Money Lent	Less than 15	20.07	17.07
Total Debt / Total Equity	Less than 4	4.58	4.95
Operational Self Sufficiency	More than 110	106.03	82.32
Interest Coverage ratio	More than 1.75	1.45	0.86
EBRD:			
Equity to Total Assets	More than 20	17.00	16.30
Debt to Equity	Less than 4	4.58	4.95
Overhead ratio	Less than 70	89.76	124.70
Aggregate Exposure to All Related Parties	Less than 10	9.23	10.50
Single Borrower Exposure	Less than GEL 50,000	286,586	283,390

Refer to Note 25 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 21. Information on related party balances is disclosed in Note 27.

15 Share Capital

In thousands of GEL except for number of shares	Number of outstanding shares (in thousands)	Ordinary shares	Total
At 8 November 2007	**-**	**-**	**-**
New shares issued	15,675	15,675	15,675
At 31 December 2008	**15,675**	**15,675**	**15,675**
At 31 December 2009	**15,675**	**15,675**	**15,675**

The total authorised number of ordinary shares is 15,676 thousand shares (2008: 15,676 thousand shares) with a par value of GEL1 per share (2008: GEL 1 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

16 Interest Income and Expense

In thousands of GEL	2009	Period from inception till 31 December 2008
Interest income		
Loans and advances to customers	15,544	15,380
Due from other banks	113	276
Interest on investments held to maturity	-	8
Total interest income	**15,657**	**15,664**
Interest expense		
Loans from international financial institutions	(4,043)	(3,141)
Loans from other banks	(454)	(1,888)
Term deposits of individuals	(52)	(119)
Total interest expense	**(4,549)**	**(5,149)**
Net interest income	**11,108**	**10,515**

17 Fee and Commission Income and Expense

In thousands of GEL	2009	Period from inception till 31 December 2008
Fee and commission income		
- Administrative fee on customer accounts	108	-
- Credit history filing	97	-
- Settlement transactions	32	1
- Other	13	1
- Cash transactions	3	1
Total fee and commission income	**253**	**3**
Fee and commission expense		
- Settlement transactions	(16)	(6)
- Bloomberg membership fees	(22)	-
- Foreign exchange operations	-	(6)
- Cash transactions	(6)	(81)
- Other	(1)	(8)
Total fee and commission expense	**(45)**	**(101)**
Net fee and commission income	**208**	**(98)**

18 Other Operating Income

In thousands of GEL	2009	Period from inception till 31 December 2008
Income from loans previously written-off	440	151
Gain on disposal of premises and equipment	1	19
Other	111	(31)
Total other operating income	**552**	**139**

19 Administrative and Other Operating Expenses

In thousands of GEL	Note	2009	Period from inception till 31 December 2008
Staff costs		5,328	6,560
Occupancy and rent		1,299	1,223
Depreciation and amortisation	10	1,283	1,558
Taxes other than on income		337	564
Security services		304	375
Communication services		286	356
Professional services		170	165
Utility services		159	146
Fuel expenses		120	212
Business trip expenses		89	130
Stationery		82	154
Repair and maintenance of premises and equipment		76	84
Advertising and marketing services		55	587
Insurance services		21	223
Transportation expenses		9	219
Other		563	742
Total administrative and other operating expenses		**10,181**	**13,298**

20 Income Taxes

(a) Components of income tax (expense) / benefit

Income tax (expense) / credit recorded in profit or loss for the year comprises the following:

In thousands of GEL	2009	2008
Current tax	-	-
Deferred tax (expense)/benefit	(76)	540
Income tax (expense)/benefit	**(76)**	**540**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Bank's 2009 income is 15% (2008: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of GEL	2009	2008
IFRS profit / (loss) before tax	**234**	**(4,684)**
Theoretical tax (charge) / credit at statutory rate (2008: 15%)	(35)	702
Tax effect of non-deductible expenses	(41)	(162)
Income tax (expense) / benefit for the year	**(76)**	**540**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Georgia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2008: 15%).

In thousands of GEL	Credited / (Charged) to profit and loss	31 December 2008	Credited / (Charged) to profit and loss	31 December 2009
Tax effect of taxable temporary differences				
Tax losses carried forward	740	740	(182)	558
Loans and advances to customers	5	5	59	64
Other financial assets	-	-	16	16
Premises equipment and intangible assets	(196)	(196)	39	(157)
Other assets	(9)	(9)	12	3
Other borrowed funds	-	-	(20)	(20)
Deferred tax asset	**540**	**540**	**(76)**	**464**

The Bank recognised deferred tax assets in respect of tax loss carry forwards of GEL 558 thousand (2008: GEL 740). In accordance with Georgian tax legislation business and capital losses may be carried forward for up to 5 years. Management believes the Bank will have enough taxable profit to fully utilise these tax loss carry forwards until they expire.

As at 31 December 2009, deferred tax asset in the amount of GEL 230 thousand is expected to be recovered after more than 12 months (2008: GEL 358 thousand).

21 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations when due. The major portion of credit risk arises from the Banks' loans and advances to customers. For risk reporting purposes, the Bank considers and consolidates all elements of credit risk exposures such as individual customer and counterparty default risk and industry risk.

The Bank has established a Credit Committee, which is responsible for approving credit limits for individual borrowers:

- The Bank's board of directors is required to review and approve all amounts above GEL 51 thousand (equivalent of USD 30 thousand). It is also responsible for issuing guidance to the Bank's credit committee in relation to all other loans; and
- The Bank's Credit committee reviews and approves all amounts below GEL 51 thousand (equivalent of USD 30 thousand). The Credit Committee meets on a weekly basis.

As at 31 December 2009, the breakdown of the loan portfolio by economic and product sectors is provided in Note 8.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit.

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Board of Directors. The Bank does not use formalised internal credit ratings to monitor exposures to credit risk. Management monitors and follows up on past due balances. The Bank's procedure for write off of non-performing loans is based on number of days of overdue status. Subsequent recoveries are recorded in profit and loss as other income.

Exposure to credit risk is also assessed and managed, in part, by obtaining, controlling and monitoring collateral in the form of mortgage interests over property, pledge of assets and securities and other collateral including corporate and personal guarantees.

While collateral is an important mitigating factor in assessing the credit risk, it is the Bank's policy to establish that loans are within the customer's capacity to repay rather to rely solely on security. Collateral is considered as a secondary source of repayment. In limited cases, depending on the customer's standing or on the type of product or amounts, the facilities may be unsecured.

Maximum exposure to credit risk. The Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position, except for loans and advances to customers. Maximum exposure to credit risk of customer loans is disclosed in Note 8. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment Refer to Note 23.

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

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a monthly basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

21 Financial Risk Management (Continued)

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

Bank's exposure to foreign currency exchange rate risk at 31 December 2009 is as follows:

In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	7,013	262	(1,855)	4,896
US Dollars	50,075	53,619	1,867	-1,677
EURO	127	-	-	127
Other	2	-	-	2
Total	**57,217**	**53,881**	**12**	**3,348**

Bank's exposure to foreign currency exchange rate risk at 31 December 2008 is as follows:

In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	4,197	213	(1,415)	2,569
US Dollars	56,258	58,395	1,665	(472)
EURO	131	-	-	131
Other	3	2	-	1
Total	**60,589**	**58,610**	**250**	**2,229**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Bank's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 24. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The Bank has procedures in place to ensure compliance with the requirements of the National Bank of Georgia. These include:

- Ensuring and monitoring that the open currency positions are below the limit as set by the National Bank of Georgia that is 20% of the fixed supervisory capital;
- Calculating the currency risk limits during the working day as well as at the end of each day; and
- When the open currency positions are misbalanced, the Bank is liable to immediately proceed on operations that will get the open currency positions back to balance. These actions are instigated by Management as required.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

	At 31 December 2009		At 31 December 2008	
In thousands of GEL	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	(168)	(143)	(47)	(40)
US Dollar weakening by 10%	168	143	47	40
Euro strengthening by 10%	13	11	13	11
Euro weakening by 10%	(13)	(11)	(13)	(11)

21 Financial Risk Management (Continued)

Other than as a result of any impact on the Bank's profit or loss, there is no other impact on the Bank's equity as a result of such changes in exchange rates.

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a monthly basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

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

In thousands of GEL	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**Non-interest bearing**	**Total**
31 December 2009						
Total financial assets	4,833	4,504	22,595	22,388	2,963	**57,283**
Total financial liabilities	18,881	2,607	8,176	23,180	1,037	**53,881**
Net interest sensitivity gap at 31 December 2009	**(14,048)**	**1,897**	**14,419**	**(792)**	**1,926**	**3,402**
31 December 2008						
Total financial assets	9,246	7,030	25,392	18,916	208	**60,792**
Total financial liabilities	20,150	8,755	21,063	8,642	-	**58,610**
Net interest sensitivity gap at 31 December 2008	**(10,904)**	**(1,725)**	**4,329**	**10,274**	**208**	**2,182**

At 31 December 2009, if interest rates at that date had been 200 basis points lower (2008: 200 basis points lower) with all other variables held constant, profit for the year would have been GEL 44 thousand (2008: GEL 96 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 200 basis points higher (2008: 200 basis points higher), with all other variables held constant, profit would have been GEL 44 thousand (2008: GEL 96 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2009			**2008**		
In % p.a.	**GEL**	**USD**	**Other**	**GEL**	**USD**	**Other**
Assets						
Cash and cash equivalents	-	5.00%	-	3.77%	7.22%	10.60%
Loans and advances to customers						
- Trade and service	44.59%	30.63%	-	33.53%	27.70%	-
- Agriculture	44.92%	34.02%	-	33.25%	29.05%	-
- Production	42.71%	30.36%	-	33.92%	25.48%	-
- Consumer loans	42.58%	19.67%	-	31.35%	19.26%	-
Liabilities						
Customer accounts	-	-	-	20%	15%	-
Other borrowed funds	-	8.89%	-	13.86%	9.36%	10.66%

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

21 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2009 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	5,147	-	-	5,147
Loans and advances to customers	51,740	-	-	51,740
Other financial assets	396	-	-	396
Total financial assets	**57,283**	**-**	**-**	**57,283**
Financial liabilities				
Customer accounts	993	-	-	993
Other borrowed funds	-	44,418	8,426	52,844
Other financial liabilities	44	-	-	44
Total financial liabilities	**1,037**	**44,418**	**8,426**	**53,881**
Net position in on-balance sheet financial instruments	**56,246**	**(44,418)**	**(8,426)**	**3,402**
Credit related commitments	**93**	**-**	**-**	**93**

Assets and liabilities have generally been based on the country in which the counterparty is located. Balances with Georgian counterparties actually outstanding to/from offshore companies of these Georgian counterparties are allocated to the caption "Georgia".

The geographical concentration of the Bank's assets and liabilities at 31 December 2008 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	4,217	20	292	4,529
Loans and advances to customers	55,923	-	-	55,923
Other financial assets	496	24	-	520
Total financial assets	**60,636**	**44**	**292**	**60,972**
Financial liabilities				
Customer accounts	1,122	-	-	1,122
Other borrowed funds	5,743	42,495	9,173	57,411
Other financial liabilities	72	5	-	77
Total financial liabilities	**6,937**	**42,500**	**9,173**	**58,610**
Net position in on-balance sheet financial instruments	**53,699**	**(42,456)**	**(8,881)**	**2,362**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining various reports relating to borrowings. The Bank did not have any such significant risk concentrations at 31 December 2009 and 2008.

Management determines concentration by assessing the quantitative data about its exposure to the risk at the reporting date. This disclosure is based on the information provided internally to key management personnel of the Bank and includes for example disclosure of concentration of risks such as currency, credit and interest.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Board of Management of the Bank.

21 Financial Risk Management (Continued)

The Bank seeks to maintain a stable funding base primarily consisting of other borrowed funds, and corporate and retail customer deposits. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the National Bank of Georgia. The ratio that is monitored is liquidity ratio, which is calculated as the ratio of liquid assets to liabilities maturing within 60 calendar days. The ratio was 59.6% at 31 December 2009 (2008: 27.6%).

According to the instruction set by the NBG, the Bank calculates instant liquidity as a ratio of daily average liquid assets to daily average liquid liabilities. This ratio is calculated based on balances derived from statutory financial statements of the Bank. The National Bank of Georgia has in place minimum levels of liquidity required. As at 31 December 2009, the Bank complied with this requirement.

The table below shows liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated, using the spot exchange rate at the balance sheet date.

The undiscounted maturity analysis of financial liabilities at 31 December 2009 was, as follows:

In thousands of GEL	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Total**
Liabilities					
Customer accounts	993	-	-	-	993
Other financial liabilities	42	-	-	-	42
Other borrowed funds	18,972	2,771	11,475	26,909	60,127
Gross credit related commitments	93	-	-	-	93
Total potential future payments for financial obligations	**20,100**	**2,771**	**11,475**	**26,909**	**61,255**

The undiscounted maturity analysis of financial liabilities at 31 December 2008 is, as follows:

In thousands of GEL	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Total**
Liabilities					
Customer accounts	617	530	-	-	1,147
Other financial liabilities	77	-	-	-	77
Other borrowed funds	19,589	8,483	22,847	12,546	63,465
Total potential future payments for financial obligations	**20,283**	**9,013**	**22,847**	**12,546**	**64,690**

21 Financial Risk Management (Continued)

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised, as follows, as at 31 December 2009:

In thousands of GEL	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	5,147	-	-	-	-	**5,147**
Loans and advances to customers	2,253	4,504	22,595	20,595	1,793	**51,740**
Other financial assets	342	-	-	-	-	**342**
Total financial assets	**7,742**	**4,504**	**22,595**	**20,595**	**1,793**	**57,229**
Liabilities						
Customer accounts	993	-	-	-	-	**993**
Other borrowed funds	18,881	2,607	8,176	23,180	-	**52,844**
Other financial liabilities	44	-	-	-	-	**44**
Total financial liabilities	**19,918**	**2,607**	**8,176**	**23,180**	**-**	**53,881**
Liquidity gap at 31 December 2009	**(12,176)**	**1,897**	**14,419**	**(2,585)**	**1,793**	**3,348**
Cumulative liquidity gap at 31 December 2009	**(12,176)**	**(10,279)**	**4,140**	**1,555**	**3,348**	

The expected maturity analysis of financial instruments at 31 December 2008 is as follows:

In thousands of GEL	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	4,799	-	-	-	-	**4,799**
Loans and advances to customers	4,609	7,030	25,371	17,256	1,657	**55,923**
Other financial assets	135	-	21	3	-	**159**
Total financial assets	**9,543**	**7,030**	**25,392**	**17,259**	**1,657**	**60,881**
Liabilities						
Customer accounts	617	505	-	-	-	**1,122**
Other borrowed funds	19,589	8,250	21,063	8,509	-	**57,411**
Other financial liabilities	77	-	-	-	-	**77**
Total financial liabilities	**20,283**	**8,755**	**21,063**	**8,509**	**-**	**58,610**
Liquidity gap at 31 December 2008	**(10,740)**	**(1,725)**	**4,329**	**8,750**	**1,657**	**2,271**
Cumulative liquidity gap at 31 December 2008	**(10,740)**	**(12,465)**	**(8,136)**	**614**	**2,271**	

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

22 Management of Capital

The Bank's objectives when managing capital are to comply with the capital requirements set by National Bank of Georgia ("NBG"), to safeguard the Bank's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 12%. Compliance with capital adequacy ratios set by the National Bank Georgia is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and the Chief Accountant and subsequently submitted to the NBG. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by NBG banks have to: (a) hold the minimum level of regulatory capital of GEL 12,000,000 (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 8%. The total capital that the Bank manages, which is the same as the amount of capital required for NBG statutory capital adequacy purposes, is GEL 11,807 thousand as at 31 December 2009 (2008: GEL 11,170 thousand).

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

In thousands of GEL	**2009**	**2008**
Tier 1 capital		
Share capital	15,676	15,676
Accumulated loss	(5,137)	(1,230)
Less: intangible assets	(587)	(367)
Total tier 1 capital after deductions	**9,952**	**14,079**
Tier 2 capital		
Current year loss	883	(3,908)
Reserves	983	998
Less: investments in subsidiaries	(10)	-
Total tier 2 capital	**1,856**	**(2,909)**
Total regulatory capital	**11,807**	**11,170**
Risk-weighted assets:		
On-balance sheet (A-Can)	86,882	108,599
Total risk-weighted assets	**86,882**	**108,599**
Core capital adequacy ratio (Tier 1)	11%	13%
Total capital adequacy ratio (Tier 1 and Tier 2)	14%	10%

During 2009 and 2008 the Bank has not complied with the regulatory requirement of minimum regulatory capital. The non-compliance with these externally imposed capital requirements may lead to imposition of restriction of distribution of dividends by regulatory body. As of report date no penalties and fines or other adverse actions were imposed by NBG. As described in Note 28 subsequent to year end the Bank was in compliance with regulatory capital requirements.

23 Contingencies and Commitments

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

Compliance with covenants. The Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. The Bank was not in compliance with certain covenants as at 31 December 2009 and 2008 and during the years then ended. The management believes such breaches of covenants will not have negative effect on the Bank's liquidity position. However, in accordance with IAS 1 (Revised) the Bank reclassified the amount of GEL 18,382 thousand of other borrowed funds into the demand category in the liquidity analyses as at 31 December 2009 (2008: GEL 19,251 thousand).

23 Commitments and Contingencies (Continued)

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and state authorities. Recent events within Georgia suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar periods preceding the period of review. Under certain circumstances, reviews may cover longer periods. Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax position will be sustained. Accordingly, at 31 December 2009 and 2008 no provision for potential tax liabilities has been recorded.

Credit related commitments. Undrawn credit lines as at 31 December 2009 amounted to GEL 93 thousand (2008: Nil). The total outstanding contractual amount of undrawn credit lines does not necessary represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was GEL 93 thousand at 31 December 2009 (2008: Nil).

24 Derivative Financial Instruments

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

	2009		2008	
In thousands of GEL	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	1,867	-	1,665	-
- USD payable on settlement (-)	-	-	-	-
- GEL receivable on settlement (+)	-	-	-	-
- GEL payable on settlement (-)	-	(1,855)	-	(1,415)
Fair value of foreign exchange forwards	**1,867**	**(1,855)**	**1,665**	**(1,415)**
Net fair value	**12**	**-**	**250**	**-**

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

25 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

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

	2009		2008	
In thousands of GEL	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial Assets				
Cash and cash equivalents	5,147	5,147	4,529	4,529
Loans and advances to customers				
- Trade and service	41,594	40,522	46,656	46,656
- Agriculture	4,882	4,834	4,140	4,140
- Production	4,617	4,555	4,458	4,458
- Consumer loans	647	512	647	647
Other receivables	330	330	159	159
Total Financial Assets Carried at Amortised Cost	**57,217**	**55,899**	**60,589**	**60,589**
Financial liabilities				
Customer accounts				
- Current/settlement accounts of legal entities	493	493	199	199
- Term deposits of legal entities	-	-	-	-
- Current/demand accounts of individuals	500	500	418	418
- Term deposits of individuals	-	-	505	505
Other borrowed funds	52,844	52,844	57,411	57,411
Other financial liabilities	44	44	77	77
Total Financial Liabilities Carried at Amortised Cost	**53,881**	**53,881**	**58,610**	**58,610**

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

Fair values of foreign exchange forwards were determined by management using valuation technique with inputs observable in markets (Level 2).

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

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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

	2009	**2008**
Cash and cash equivalents	5% p.a.	3.8% to 10.6% p.a.
Loans and advances to customers		
- Trade and service	30.6% to 44.6% p.a.	27.7% to 33.5% p.a.
- Agriculture	34% to 44.9% p.a.	29.1% to 33.3% p.a.
- Production	30.4% to 42.7% p.a.	25.5% to 33.9% p.a.
- Consumer loans	19.7% to 42.6% p.a.	19.3% to 31.4% p.a.
Customer accounts		
- Current/settlement accounts of legal entities	0%	0%
- Current/demand accounts of individuals	0%	0%
- Term deposits of individuals	-	15% to 20% p.a.
Other borrowed funds	8.90%	9.4% to 13.9% p.a.

26 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; and (c) financial assets at fair value through profit or loss ("FVTPL").

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

In thousands of GEL	**Loans and receivables**	**Available for sale assets**	**FVTPL**	**Total**
Assets				
Cash and cash equivalents	-	-	-	5,147
Loans and advances to customers:				
- Trade and service	41,594	-	-	41,594
- Agriculture	4,882	-	-	4,882
- Production	4,617	-	-	4,617
- Consumer loans	647	-	-	647
Other financial assets:				
- Other financial receivables	330	-	-	330
- Corporate shares	-	54	-	54
- Financial assets at fair value through profit or loss	-	-	12	12
Total Financial assets	**52,070**	**54**	**12**	**57,283**
Non-financial assets				**8,689**
Total Assets				**65,972**

As at 31 December 2009 and 2008 all of the Bank's financial liabilities were carried at amortised cost.

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2008:

In thousands of GEL	**Loans and receivables**	**Available for sale assets**	**FVTPL**	**Total**
Assets				
Cash and cash equivalents	-	-	-	4,529
Loans and advances to customers:				
- Trade and service	46,656	-	-	46,656
- Agriculture	4,140	-	-	4,140
- Production	4,458	-	-	4,458
- Consumer loans	647	-	-	647
Other financial assets:				
- Other financial receivables	159	-	-	159
- Corporate shares	-	54	-	54
- Financial assets at fair value through profit or loss	-	-	250	250
Total Financial Assets	**56,060**	**54**	**250**	**60,893**
Non-financial Assets				**9,539**
Total Assets				**70,454**

27 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

In thousands of GEL	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 13 %)	1,073
Impairment provisions for loans and advances to customers at 31 December	12
Customer accounts (contractual interest rate: 0 %)	10

The income and expense items with related parties for 2009 were as follows:

In thousands of GEL	**Ultimate parent**	**Key management personnel**
Interest income	10	142
Foreign exchange translation gains less losses	-	12
Fee and commission income	1	
Administrative and other operating expenses		764

Aggregate amounts lent to and repaid by related parties during 2009 were:

In thousands of GEL	**Ultimate parent**	**Key management personnel**
Amounts lent to related parties during the year	-	-
Amounts repaid by related parties during the year	87	73

At 31 December 2008, the outstanding balances with related parties were as follows:

In thousands of GEL	**Ultimate parent**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 13-26 %)	87	1,132
Impairment provisions for loans and advances to customers at 31 December	1	12
Customer accounts (contractual interest rate: 0 %)	-	13

The income and expense items with related parties for 2008 were as follows:

In thousands of GEL	**Ultimate parent**	**Key management personnel**
Interest income	13	102
Provision for loan impairment	1	12
Foreign exchange translation gains less losses	12	106
Administrative and other operating expenses	0	791

Aggregate amounts lent to and repaid by related parties during 2008 were:

In thousands of GEL	**Ultimate parent**	**Key management personnel**
Amounts lent to related parties during the year	90	1,405
Amounts repaid by related parties during the year	3	280

27 Related Party Transactions (Continued)

Key management compensation is presented below:

In thousands of GEL	2009 Expense	2009 Accrued liability	2008 Expense	2008 Accrued liability
Short-term benefits:				
- Salaries	743	-	784	-
Total	**743**	**-**	**784**	**-**

28 Events After the End of the Reporting Period

As at 31 March 2010 and since then, the Bank has met the regulatory capital adequacy requirements of NBG based on the Bank's statutory reports submitted to NBG.