

**CLOSED JOINT STOCK
COMPANY BANK
CONSTANTA**

Financial Statements

For the Period from Inception till 31 December
2008

CLOSED JOINT STOCK COMPANY BANK CONSTANTA

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 8 NOVEMBER 2007 (INCEPTION) TILL 31 DECEMBER 2008	1
INDEPENDENT AUDITORS' REPORT	2-3
FINANCIAL STATEMENTS FOR THE PERIOD FROM INCEPTION TILL 31 DECEMBER 2008:	
Statement of operations	4
Balance sheet	5
Statement of changes in equity	6
Statement of cash flows	7
Notes to the financial statements	8-41

CLOSED JOINT STOCK COMPANY BANK CONSTANTA

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM INCEPTION TILL 31 DECEMBER 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2 and 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Closed Joint Stock Company Bank Constanta (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2008, the results of its operations, cash flows and changes in equity for the period from inception till 31 December 2008, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

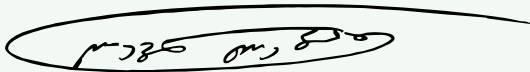
- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Georgia;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the period from inception till 31 December 2008 were authorized for issue on 9 June 2009 by the Management Board.

On behalf of the Management Board:



General Director
Levan Lebanidze

9 June 2009
Tbilisi



Financial Director
Zviad Mirianashvili

9 June 2009
Tbilisi

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Closed Joint Stock Company Bank Constanta:

Report on the financial statements

We have audited the accompanying financial statements of Closed Joint Stock Company Bank Constanta (the "Bank"), which comprise balance sheet as at 31 December 2008, statements of operations, changes in equity and cash flows for the period from 8 November 2007 ("inception" date) till 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management of the Bank 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.

Auditors' responsibility

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 misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2008, and its financial performance and cash flows for the period from inception till 31 December 2008 in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Notes 23, 24 which indicates the general instability in financial markets resulted in net losses of GEL 4,144 thousand for the period from inception till 31 December 2008; negative liquidity gaps up to one year in the total amount of GEL 8,215 thousand, and non-compliance with certain debt financial covenants. These conditions, along with other matters as set forth in Note 24, indicate the existence of a material uncertainty which may cast doubt about the Bank's ability to continue as a going concern. Management's plans concerning this matter are also discussed in Note 24 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Deloitte & Touche

9 June 2009

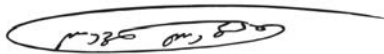
Tbilisi, Georgia

CLOSED JOINT STOCK COMPANY BANK CONSTANTA

STATEMENT OF OPERATIONS FOR THE PERIOD FROM INCEPTION TILL 31 DECEMBER 2008 (in thousands of Georgian Lari)

	Notes	Period from inception till 31 December 2008
Interest income	4, 25	14,859
Interest expense	4, 25	(5,149)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		9,710
Provision for impairment losses on interest bearing assets	5, 25	(2,145)
NET INTEREST INCOME		7,565
Net loss on financial assets and liabilities at fair value through profit or loss	6	(369)
Net gain on foreign exchange operations	7	572
Fee and commission income	8	3
Fee and commission expense	8	(101)
Provision for impairment losses on other operations	5	(35)
Other income	9	944
NET NON-INTEREST INCOME		1,014
OPERATING INCOME		8,579
OPERATING EXPENSES	10, 25	(13,263)
OPERATING LOSS		(4,684)
Income tax benefit	11	540
NET LOSS		(4,144)

On behalf of the Management Board:



General Director
Levan Lebanidze

9 June 2009
Tbilisi, Georgia



Financial Director
Zviad Mirianashvili

9 June 2009
Tbilisi, Georgia

The notes on pages 9-41 form an integral part of these financial statements.

CLOSED JOINT STOCK COMPANY BANK CONSTANTA

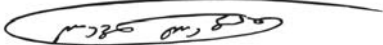
BALANCE SHEET

AS AT 31 DECEMBER 2008

(in thousands of Georgian Lari)

	Notes	31 December 2008
ASSETS:		
Cash and balances with the National Bank of Georgia	12	2,488
Financial assets at fair value through profit or loss	13	250
Due from banks	14	2,041
Loans to customers	15, 25	55,923
Investments available-for-sale	16	54
Property, plant and equipment	17	8,465
Deferred income tax assets	11	540
Other assets	18	693
TOTAL ASSETS		<u>70,454</u>
LIABILITIES AND EQUITY		
LIABILITIES:		
Due to banks	19	57,544
Customer accounts	20, 25	1,122
Other liabilities	21	257
Total liabilities		<u>58,923</u>
EQUITY:		
Share capital	22	15,675
Accumulated deficit	22	(4,144)
Total equity		<u>11,531</u>
TOTAL LIABILITIES AND EQUITY		<u>70,454</u>

On behalf of the Management Board:


General Director
Levan Lebanidze

9 June 2009
Tbilisi, Georgia


Financial Director
Zviad Mirianashvili

9 June 2009
Tbilisi, Georgia

The notes on pages 9-41 form an integral part of these financial statements.

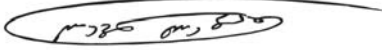
CLOSED JOINT STOCK COMPANY BANK CONSTANTA

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM INCEPTION TILL 31 DECEMBER 2008

(in thousands of Georgian Lari)

	Note	Share capital	Accumulated deficit	Total equity
8 November 2007				
Share capital increase	22	15,675	-	15,675
Net loss		-	(4,144)	(4,144)
		<u>15,675</u>	<u>(4,144)</u>	<u>11,531</u>

On behalf of the Management Board:

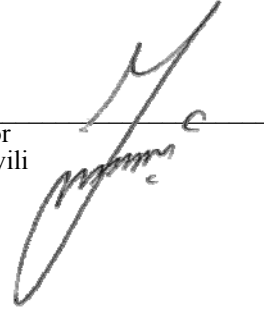


General Director
Levan Lebanidze

9 June 2009
Tbilisi, Georgia

Financial Director
Zviad Mirianashvili

9 June 2009
Tbilisi, Georgia



The notes on pages 9-41 form an integral part of these financial statements.

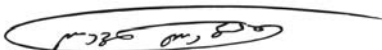
CLOSED JOINT STOCK COMPANY BANK CONSTANTA

STATEMENT OF CASH FLOWS FOR THE PERIOD FROM INCEPTION TILL 31 DECEMBER 2008 (in thousands of Georgian Lari)

	Notes	Period from inception till 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss before income tax		(4,684)
Adjustments for:		
Provision for impairment losses on interest bearing assets		2,145
Provision for impairment losses on other transactions		35
Gain on foreign exchange operations		(289)
Gain on disposal of property, plant and equipment		(19)
Depreciation and amortization expense		1,558
Net change in interest accruals		234
		<hr/>
Cash (outflow)/inflow from operating activities before changes in operating assets and liabilities		(1,020)
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Minimum reserve deposit with the NBG		(21)
Financial assets at fair value through profit or loss		(250)
Due from banks		(2,021)
Loans to customers		(56,941)
Other assets		(361)
Increase/(decrease) in operating liabilities		
Financial liabilities at fair value through profit or loss		-
Due to banks		56,505
Customer accounts		1,122
Other liabilities		257
		<hr/>
Net cash inflow/(outflow) from operating activities		(2,730)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment and intangible assets		(10,045)
Proceeds on sale of property, plant and equipment		74
Purchase of investments available-for-sale		(54)
		<hr/>
Net cash outflow from investing activities		(10,025)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of ordinary share capital		15,675
		<hr/>
Net cash inflow from financing activities		15,675
		<hr/>
<i>Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents</i>		(433)
		<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,487
CASH AND CASH EQUIVALENTS, beginning of the period	12	-
		<hr/>
CASH AND CASH EQUIVALENTS, end of the period	12	2,487
		<hr/> <hr/>

Interest paid and received by the Bank during the period from inception till 31 December 2008 amounted to GEL 4,110 thousand and GEL 14,054 thousand, respectively.

On behalf of the Management Board:



General Director
Levan Lebanidze

9 June 2009
Tbilisi, Georgia



Financial Director
Zviad Mirianashvili

9 June 2009
Tbilisi, Georgia

The notes on pages 9-41 form an integral part of these financial statements.

CLOSED JOINT STOCK COMPANY BANK CONSTANTA

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM INCEPTION TILL 31 DECEMBER 2008 (in thousands of Georgian Lari)

1. ORGANIZATION

Closed Joint Stock Company Constanta was established as a joint stock company under the laws of Georgia on 8 November 2007 (“inception” date) by Microfinance Organization Constanta Foundation. Closed JSC Constanta obtained general banking license number 130 issued by the Financial Supervisory Agency on 3 July 2008 and was re-registered as Closed Joint Stock Company Bank Constanta (the “Bank”). The Bank’s primary business consists of commercial activities, foreign currencies and derivative instruments, originating loans, taking customer accounts.

The registered office of the Bank is at 115 Tsinamdzgvishvili Street, Tbilisi, 0164, Georgia.

As at 31 December 2008 the Bank has 21 branches operating in Georgia.

As at 31 December 2008 the following shareholders owned the issued shares of the Bank:

	31 December 2008, %
Shareholder:	
First level shareholders:	
Ltd Constanta Plus	77.45%
Lebanidze Tamar	9.17%
Lebanidze Levan	5.63%
Mirianashvili Zviad	2.66%
Ghachava Gia	2.59%
Turnava Natela	1.22%
Jakhua Manana	0.70%
Varziashvili Gela	0.58%
Total	100%

Ltd Constanta Plus is 100% owned by Microfinance Organization Constanta Foundation, a non profit micro financial organization. The founders of Microfinance Organization Constanta Foundation are Tamar Lebanidze, Khatuna Zaldastanishvili and Levan Mchedlishvili. The founders transferred their authority to manage the Foundation to the Governing Board of the Foundation represented by Tamar Lebanidze, Maka Jakhua, Gela Mchedlishvili, Bakradze, and Natela Turnava.

These financial statements were authorized for issue by the Management Board of the Bank on 9 June 2009.

2. BASIS OF PRESENTATION

Accounting basis

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These financial statements are presented in thousands of Georgian Lari (“GEL”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

The Bank maintains its accounting records in accordance with IFRS. These financial statements have been prepared based on accounting records of the Bank.

Functional currency

The functional currency of the financial statements is the Georgian Lari.

3. SIGNIFICANT ACCOUNTING POLICIES

Reporting period

As disclosed in Note 1 Closed Joint Stock Company Constanta was established on 8 November 2007 and started operations in 2008 and these financial statements have been prepared covering the period from 8 November 2007 (“inception”) till 31 December 2008 as these financial statements do not differ materially from those that would have been presented for the year ended 31 December 2008. Subsequently, the calendar year will be used as a reporting period.

Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent time deposit accounts with the National Bank of Georgia (the “NBG”) and advances to banks in countries included in the Organization for Economic Cooperation and Development (“OECD”) with original maturity within 90 days.

The minimum reserve deposits with the NBG are subject to restrictions to its availability and therefore are not included in cash and cash equivalents.

Due from banks

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities are classified as valued at fair value through profit or loss if they meet any of the following conditions: (1) acquired principally for the purpose of selling them in the near future, (2) which are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking, or (3) are designated as derivatives (except the case when derivative is defined as effective hedging instrument).

The Bank enters into derivative financial instruments to manage currency and liquidity risks. These instruments include foreign currency swaps.

Derivative financial instruments

In the normal course of business, the Bank enters into swap derivative financial instruments. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the balance sheet. Gains and losses resulting from these instruments are included in net gain/loss from financial assets and liabilities at fair value through profit or loss in the statement of operations.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers granted by the Bank are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of operations according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible, including through repossession of collateral. Loans and advances are written off against allowance for impairment losses in case of being in arrears more than 180 days.

Allowance for impairment losses

The Bank accounts for impairment of financial assets not recorded at fair value when there is an objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and security discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the provision account.

For the financial instruments recorded at cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument. Such impairment losses are not reversed.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included into profits using the provision account (financial assets recorded at amortized value) or by a direct write-off (financial assets recorded at cost). The assets recorded in the balance sheet are reduced by the amount of the impairment. The factors the Bank evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Bank believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is not improbable that in certain periods the Bank can incur losses greater compared to recorded impairment.

Derecognition of financial assets and liabilities

Financial assets

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

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

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

Investments available-for-sale

Investments available-for-sale represent equity investments that are intended to be held for an indefinite period of time. Investments available-for-sale are initially recorded at fair value and subsequently measured at fair value, with such re-measurement recognized directly in equity, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the statement of operations. When sold, the gain/loss previously recorded in equity is recycled through the statement of operations. The Bank uses quoted market prices to determine the fair value for the Bank's investments available-for-sale. If the market for investments is not active, the Bank establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique.

Non-marketable equity securities are stated at cost, less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the statement of operations for the period. These financial assets are recognized net of reserve for impairment.

Property, plant and equipment

Initial cost of property, plant and equipment is assessed based on actual expenses for their acquisition that comprise purchase price, including non-refundable purchase taxes and any directly attributed costs of bringing the asset to its working condition and location for intended use. Subsequent to initial recognition property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged on the carrying value of property, plant and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	5%
Furniture and computer equipment	20%
Vehicles	20%
Other	20%
Intangible assets	10%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, an impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the period. Taxable profit differs from net profit before tax as reported in the statement of operations because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on property and equipment and provisions for off-balance sheet commitments, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of operations, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the balance sheet if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Georgia also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of operations.

Due to banks and customer accounts

Due to banks and customer accounts are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of operations over the period of the borrowings, using the effective interest method.

Provisions

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

Contingencies

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

Share capital

Contributions to share capital are recognized at their cost. External costs directly attributable to the issue of new shares, other than on a business are deducted from equity net of any related income taxes.

Retirement and other benefit obligations

In accordance with the requirements of the Georgian legislation, certain percentages of pension payments were withheld from total disbursements to staff to be transferred to the state pension fund till 1 January 2008, such that a portion of salary expense is withheld from the employee and instead paid to the state pension fund on behalf of the employee. This expense was charged in the period the related salaries were earned. Upon retirement all retirement benefit payments are made by the state pension fund. The Bank does not have any pension arrangements separate from the state pension system of Georgia. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the statement of operations over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the statement of operations on expiry. Loan servicing fees are recognized as revenue as the services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

The exchange rates used by the Bank in the preparation of the financial statements as at period-end are as follows:

	31 December 2008
GEL/1 US Dollar	1.6670
GEL/1 Euro	2.3648

The average exchange rates for the period from inception till 31 December 2008 are as follows:

	Period from inception till 31 December 2008
GEL/1 US Dollar	1.5056
GEL/1 Euro	2.2101

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the Bank does not offset the transferred asset and the associated liability.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Bank's financial condition.

Allowance for impairment of loans

The Bank regularly reviews its loans to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Georgia is not in a position to predict what changes in conditions will take place in Georgia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss or available for sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the statement of operations on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Bank considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its balance sheet as well as its profit/(loss) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Bank's reported net income.

Useful lives of property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and less any accumulated impairment losses. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any one of these conditions or estimates may result in adjustments to future depreciation rates.

Taxation

The management of the Bank is confident that no valuation allowance against deferred tax assets at the balance sheet dates is considered necessary, because it is more likely than not the deferred tax asset will be fully realized.

Taxation is discussed in Notes 11 and 23.

Adoption of new and revised standards

In the current period, the Bank has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2008. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that have affected the amounts reported for the current period.

Amendments to IAS 1 "Capital Disclosures" ("IAS 1") – On 18 August 2005, the IASB issued amendments to IAS 1 which requires certain disclosures to be made regarding the entity's objectives, policies and processes for managing capital. Additional information was disclosed in the financial statements for the current and comparative reporting periods as required by amended IAS 1.

Amendments to IAS 39, "Financial Instruments: Recognition and Measurement", and IFRS 7, "Financial Instruments: Disclosures", titled "Reclassification of Financial Assets" – On 13 October 2008 IASB issued amendments to IAS 39 and IFRS 7 which permits certain reclassifications of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category and also allow reclassification of financial assets from the available for sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective as of 13 October 2008 and in certain circumstances can be applied retrospectively from 1 July 2008. The Bank has elected not to apply the amendments to IAS 39 and IFRS 7 retrospectively.

Standards and interpretations issued and not yet adopted

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Interpretations were in issue but not yet effective.

IFRIC 9 – "Reassessment of Embedded Derivatives" which requires that there should be no reassessment of whether an embedded derivative should be separated from the host contract after initial recognition, unless there have been changes to the contract. The adoption of IFRIC 9 had no impact on the Bank's profit or loss or financial position.

IFRS 8 – The IASB issued IFRS 8 "Operating Segments" in December 2006. This will replace IAS 14 "Segment Reporting" for accounting periods beginning on or after 1 January 2009. IFRS 8 requires segmental analysis reported by an entity to be based on information used by management. Management is currently assessing the impact of the adoption of IFRS 8.

IAS 1 – On 6 September 2006, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented to in IFRS but does not require that these be renamed in an entity's financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.

IAS 23 – On March 2007 the IASB issued a revised IAS 23 “Borrowing Costs”. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such asset. The Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

IAS 27 – In 2008 the Standard was amended as part of the second phase of the business combinations project. That phase of the project was undertaken jointly with the US Financial Accounting Standards Board (FASB). The amendments related, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary. The boards concluded the second phase of the project by the IASB issuing the amended IAS 27 and the FASB issuing FASB Statement No. 160 Noncontrolling Interests in Financial Statements, along with, respectively, a revised IFRS 3 Business Combinations and FASB Statement No. 141 (revised 2007) Business Combinations. The amended Standard must be applied for annual periods beginning on or after 1 July 2009. Earlier application is permitted. However, an entity must not apply the amendments for annual periods beginning before 1 July 2009 unless it also applies IFRS 3 (as revised in 2008).

IFRS 3 – “Business Combinations”. On 10 January 2008, the IASB issued an amendment to IAS 3 “Business Combinations” which clarifies and changes certain elements of accounting for a business combination, including measurement of contingent consideration, step acquisition and intangible assets and also widens the scope of this standard. The amendment to IFRS 3 is effective for periods beginning on or after 1 January 2009.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions was issued in November 2007. Entities which buy their own shares, or whose shareholders buy shares in the reporting entity, in order to provide incentives to employees shall account for those incentives on an equity-settled basis. This principle applies also to the accounting by subsidiaries. The interpretation is effective for annual accounting periods beginning on or after 1 March 2008.

4. NET INTEREST INCOME

	Period from inception till 31 December 2008
Interest income comprises:	
Interest income on financial assets recorded at amortized cost:	
- interest income on impaired financial assets	460
- interest income on unimpaired financial assets	14,399
	<hr/>
Total interest income	14,859
	<hr/>
Interest income on financial assets recorded at amortized cost comprises:	
Interest on loans to customers	14,563
Interest on due from banks	288
Interest on investments held to maturity	8
	<hr/>
Total interest income on financial assets recorded at amortized cost	14,859
	<hr/>
Interest expense comprises:	
Interest on due to banks	(5,030)
Interest on customer accounts	(119)
	<hr/>
Total interest expense	(5,149)
	<hr/>
Net interest income before provision for impairment losses on interest bearing financial assets	9,710
	<hr/> <hr/>

5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Period from inception till 31 December 2008
At the beginning of the period	-
Provision	2,145
Write-off of assets	(379)
Recoveries of assets previously written off	<u>57</u>
31 December 2008	<u><u>1,823</u></u>

The movements in other allowances were as follows:

	Other assets
At the beginning of the period	-
Provision	<u>35</u>
31 December 2008	<u><u>35</u></u>

6. NET LOSS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net loss on financial assets and liabilities at fair value through profit or loss comprises:

	Period from inception till 31 December 2008
Net loss on operations with derivative financial instruments	<u>369</u>
Net loss on financial assets and liabilities at fair value through profit or loss	<u><u>369</u></u>

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Period from inception till 31 December 2008
Dealing, net	283
Translation differences, net	<u>289</u>
Total net gain on foreign exchange operations	<u><u>572</u></u>

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Period from inception till 31 December 2008
Fee and commission income:	
Cash operations	1
Settlements	1
Other	1
	<hr/>
Total fee and commission income	3
	<hr/> <hr/>
Fee and commission expense:	
Cash operations	(81)
Settlements	(6)
Foreign currency operations	(6)
Other	(8)
	<hr/>
Total fee and commission expense	(101)
	<hr/> <hr/>

9. OTHER INCOME

Other income comprises:

	Period from inception till 31 December 2008
Fines and penalties	805
Income from loans previously written off	151
Gain on disposal of property, plant and equipment	19
Other	(31)
	<hr/>
Total other income	944
	<hr/> <hr/>

10. OPERATING EXPENSES

Operating expenses comprise:

	Period from inception till 31 December 2008
Salary and bonuses	6,560
Depreciation and amortization	1,558
Operating lease	1,223
Advertising costs	587
Taxes, other than income tax	567
Security	375
Communications	356
Insurance	223
Fuel expenses	212
Professional services	165
Stationary	154
Utilities	146
Business trip expenses	130
Property, plant and equipment maintenance and repair	84
Other expenses	923
	<hr/>
Total operating expenses	13,263
	<hr/> <hr/>

11. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax Georgian regulations, which may differ from International Reporting Standards.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2008 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax rate used for 2008 reconciliations above is the corporate tax rate of 15% payable by corporate entities in the Georgia on taxable profits under Georgian tax law.

Temporary differences as at 31 December 2008:

	31 December 2008
Deductible temporary differences:	
Loans to customers	32
Total deductible temporary differences	32
Taxable temporary differences:	
Property, plan and equipment	(1,303)
Other assets	(62)
Total taxable temporary differences	(1,365)
Net deferred taxable temporary differences	(1,333)
Net deferred tax liability at the statutory tax rate (15%)	(200)
Loss carryforward	740
Net deferred tax asset	540

Relationships between tax expenses and accounting profit for the period from inception till 31 December 2008 are explained as follows:

	Period from inception till 31 December 2008
Loss before income tax	4,684
Tax at the statutory tax rate (15 %)	702
Tax effect of permanent differences	(162)
Income tax benefit	540
Current income tax expense	-
Deferred income tax benefit	540
Income tax expense	540

Deferred income tax assets	2008
Beginning of the period	-
Increase in income tax asset for the period charged to statement of operations	<u>540</u>
End of the period	<u>540</u>

12. CASH AND BALANCES WITH THE NATIONAL BANK OF GEROGIA

	31 December 2008
Cash	2,437
Balances with the NBG	<u>51</u>
Total cash and balances with the NBG	<u>2,488</u>

The balances with the NBG as at 31 December 2008 include GEL 21 thousand, which represent the obligatory minimum reserve deposits with the NBG.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2008
Cash and balances with the NBG	2,488
Due from banks in OECD countries (Note 29)	<u>20</u>
Less minimum reserve deposits with the NBG	<u>(21)</u>
Total cash and cash equivalents	<u>2,487</u>

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2008
Derivative financial instruments	<u>250</u>
Total financial assets at fair value through profit or loss	<u>250</u>

	31 December 2008	
	Nominal amount	Net fair value
		Assets Liabilities
Derivative financial instruments:		
Foreign currency contracts		
Swaps	1,000	<u>1,665 (1,415)</u>
Total		<u>1,665 (1,415)</u>

14. DUE FROM BANKS

Due from banks comprise:

	31 December 2008
Correspondent accounts with resident banks	1,729
Correspondent accounts with non-resident banks	<u>312</u>
Total due from banks	<u><u>2,041</u></u>

Included in due from banks is accrued interest in the amount of nil.

As at 31 December 2008 the Bank had due from one bank, which individually exceeded 10% of the Bank's equity.

As at 31 December 2008 the maximum credit risk exposure on due from banks amounted to GEL 2,041 thousand.

15. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2008
Loans to customers	56,941
Accrued interest income on loans to customers	<u>805</u>
Less: allowance for impairment losses	<u>(1,823)</u>
Total loans to customers	<u><u>55,923</u></u>

Movements in allowances for impairment losses for the period from inception till 31 December 2008 are disclosed in Note 5.

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2008
Loans collateralized by personal guarantees	33,712
Loans collateralized by real estate	13,910
Loans collateralized by combined collateral	5,366
Other collateral	7
Unsecured loans	<u>2,928</u>
Total loans to customers	<u><u>55,923</u></u>

	31 December 2008
Analysis by sector:	
Trade and service	37,214
Individual	15,018
Manufacturing	350
Agriculture	142
Other	3,199
	<hr/>
Total loans to customers	<u><u>55,923</u></u>

Loans to individuals comprise the following products:

	31 December 2008
Consumer loans	10,645
Mortgage and housing loans	3,855
Car loans	987
	<hr/>
Less: allowance for impairment losses	(469)
	<hr/>
Total loans to individuals	<u><u>15,018</u></u>

As at 31 December 2008 136 loans to customers amounted to GEL 116 thousand were pledged as collateral under loan received from United Methodist Committee On Relief aimed at financing micro-credit loans for agriculture related activities (Note19).

As at 31 December 2008 a maximum credit risk exposure on loans to customers amounted to GEL 55,923 thousand.

As at 31 December 2008 loans to customers included loans in amount of GEL 549 thousand, whose terms have been renegotiated. Otherwise these loans would be past due or impaired.

As at 31 December 2008 loans to customers included loans in amount of GEL 405 thousand that were individually determined to be impaired due to objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets and that has an impact on the estimated future cash flows of the financial assets of group of assets that can be reliably estimated.

16. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	31 December 2008	
	Ownership interest %	Fair value
JSC United Clearing Centre	6.25%	54

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings and other real estate	Vehicles	Furniture and equipment	Construction in progress	Leasehold improve- ments	Other	Total
At initial cost							
8 November 2007	-	-	-	-	-	-	-
Additions	4,205	437	3,150	50	2,192	11	10,045
Transfers	-	-	20	(50)	-	30	-
Disposals	-	(60)	(191)	-	(17)	(2)	(270)
31 December 2008	<u>4,205</u>	<u>377</u>	<u>2,979</u>	<u>-</u>	<u>2,175</u>	<u>39</u>	<u>9,775</u>
Accumulated depreciation							
8 November 2007	-	-	-	-	-	-	-
Charge for the period	240	87	691	-	492	15	1,525
Transfers	-	-	5	-	-	(5)	-
Eliminated on disposals	-	(38)	(165)	-	(11)	(1)	(215)
31 December 2008	<u>240</u>	<u>49</u>	<u>531</u>	<u>-</u>	<u>481</u>	<u>9</u>	<u>1,310</u>
Net book value							
As at 31 December 2008	<u><u>3,965</u></u>	<u><u>328</u></u>	<u><u>2,448</u></u>	<u><u>-</u></u>	<u><u>1,694</u></u>	<u><u>30</u></u>	<u><u>8,465</u></u>

As at 31 December 2008 buildings and other real estate in the amounts of GEL 1,102 thousand were pledged as collateral for short-term loans received from a resident commercial bank (Note 19).

18. OTHER ASSETS

Other assets comprise:

	31 December 2008
Other financial assets:	
Prepayments and receivables on other transactions	216
	<u>216</u>
Other non-financial assets:	
Intangible assets	367
Repossessed assets	80
Tax settlement, other than income tax	34
Inventory	29
Other	2
	<u>512</u>
Less allowance for impairment losses	<u>(35)</u>
Total other assets	<u><u>693</u></u>

Movements in allowances for impairment losses for the period from inception till 31 December 2008 are disclosed in Note 5.

	Intangible assets
At initial cost	
8 November 2007	-
Additions	<u>400</u>
31 December 2008	<u>400</u>
Accumulated amortization	
8 November 2007	-
Charge for the period	<u>33</u>
31 December 2008	<u>33</u>
Net book value	
As at 31 December 2008	<u><u>367</u></u>

19. DUE TO BANKS

	Original currency	Interest rate	Maturity date	31 December 2008
Loans from international financial institutions:				41,767
Oikocredit, Ecumenical Development Cooperative Society U.A.	USD	8.50%	15-Apr-13	5,048
Oikocredit, Ecumenical Development Cooperative Society U.A.	USD	8.25%	27-Sep-11	2,539
Petterlaar Effectenbewaarbedrijf N.V.	USD	8.65%	31-May-12	6,868
BlueOrchard Loans for Development S.A.	USD	9.00%	1-Jun-12	6,701
Global Commercial Microfinance Consortium Ltd	USD	10.40%	3-Nov-10	6,668
ASN-Novib Fonds	USD	10.00%	31-Mar-09	3,525
Credit Suisse Microfinance Fund Management Company	USD	9.50%	4-Aug-09	1,731
Credit Suisse Microfinance Fund Management Company	USD	9.50%	9-Jun-11	1,676
Global Microfinance Facility	USD	9.00%	30-Apr-09	2,504
Dual Return Fund S.I.C.A.V.	USD	9.50%	4-Mar-10	1,718
Finethic Microfinance, Societe en Connandite par Actions (S.C.A)	USD	9.50%	5-Mar-10	1,718
Calvert Social Investment Foundation, Inc.	USD	8.25%	15-May-10	842
United Methodist Committee On Relief	USD	-%	30-Nov-09	133
Oikocredit, Ecumenical Development Cooperative Society U.A.	EUR	9.50%	11-May-09	96
Loans from banks:				15,777
JSC Bank Republic	USD	16.00%	19-Feb-09	5,877
European Bank for Reconstruction and Development	USD	7.90%	24-Nov-11	5,429
Bank IM Bistum Essen e.G.	USD	9.00%	15-May-11	3,346
StichTing Triodos-Doen	USD	9.50%	30-Apr-09	<u>1,125</u>
Total due to banks				<u><u>57,544</u></u>

Included in due to banks is accrued interest in the amount of GEL 1,039 thousand as at 31 December 2008.

According to the loan agreement with Global Commercial Microfinance Consortium Ltd, dated 15 August 2006 and as stipulated by the section 6 “Borrowers Covenants” clauses S, T, U, V the Bank has to comply with certain financial covenants. The information on the breached financial covenants and the degree of the Bank’s incompliance with those covenants as at 31 December 2008 are disclosed below:

Covenants	31 December 2008	
	Required	Actual
Cost/Unit of Money Lent	Less than 15%	17.07%
Total Debt /Total Equity	Less than 4	4.95
Operational Self Sufficiency	More than 110%	82.32%
Interest Coverage Ratio	More than 1.75	0.86

According to the loan agreement with European Bank for Reconstruction and Development, dated 8 November 2006 and as stipulated by the Schedule 3 “Affirmative and Negative Covenants”, paragraph number 6, the Bank has to comply with certain financial covenants. The information on the breached financial covenants and the degree of the Bank’s incompliance with those covenants as at 31 December 2008 are disclosed below:

Covenants	31 December 2008	
	Required	Actual
Equity to Total Assets	More than 20%	16.30%
Debt to Equity	Less than 4	4.95
Overhead Ratio	Less than 70%	124.70%
Aggregate Exposure to All Related Parties	Less than 10%	10.50%
Single Borrower Exposure	Less than 50,000	283,390

According to the loan agreement with Global Microfinance Facility, dated 19 May 2006 and as stipulated by the section 12 “Covenants” clauses C, E, the Bank has to comply with certain financial covenants. The information on the breached financial covenants and the degree of the Bank’s incompliance with those covenants as at 31 December 2008 are disclosed below:

Covenants	31 December 2008	
	Required	Actual
Annualized ROE	More than 0%	(25.53)%
Leverage Ratio	Less than 4	5.11

According to the loan agreement with StichTing Triodos-Doen, dated 25 June 2008 and as stipulated by the section 13 “Events of Default” paragraph 13.3, the Bank has to comply with certain financial covenants. The information on the breached financial covenants and the degree of the Bank’s incompliance with those covenants as at 31 December 2008 are disclosed:

Covenants	31 December 2008	
	Required	Actual
Solvency Ratio	More than 18%	16.37%

According to the credit line agreement with ASN-Novib Fonds, dated 7 June 2007 and as stipulated by the section 11 “Events of Default” clause G, the Bank has to comply with certain financial covenants. The information on the breached financial covenants and the degree of the Bank’s incompliance with those covenants as at 31 December 2008 are disclosed below:

Covenants	31 December 2008	
	Required	Actual
Insolvency Ratio	More than 20%	16.37%

Due to breaching the financial covenants described above the respective liabilities were reflected in these financial statements (Note 29) as current liabilities in the amount of GEL 19,251 thousand.

20. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2008
Time deposits	505
Repayable on demand	<u>617</u>
Total customer accounts	<u><u>1,122</u></u>

As at 31 December 2008 customer accounts of GEL 505 thousand (45%) were due to one customer, which represents significant concentration.

As at 31 December 2008 included in term deposits is a term loan agreement with an individual in the amount of USD 303 thousand (GEL 505 thousand) repayable by the Bank in full at maturity on 16 March 2009.

Included in customer accounts is accrued interest in the amount of nil.

	31 December 2008
Analysis by sector:	
Individuals	923
Trade	<u>199</u>
Total customer accounts	<u><u>1,122</u></u>

21. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2008
Other financial liabilities:	
Payables	39
	<u>39</u>
Other non-financial liabilities:	
Taxes payable, other than income tax	180
Due to employees	38
	<u>218</u>
Total other liabilities	<u>257</u>

22. SHARE CAPITAL

As of 31 December 2008 authorized share capital consisted of 18,000 thousand ordinary shares with par value of GEL 1 each. At 31 December 2008 shares issued and outstanding consisted of 15,676 thousand shares.

As at 31 December 2008 the Bank's share capital comprised of the following number of shares of GEL 1 each:

	Share capital authorized Share'000	Share capital authorized but not paid in Share'000	Share capital issued Share'000
Ordinary shares	18,000	(2,325)	15,675

The below table provides a reconciliation of the number of shares outstanding as of 31 December 2008:

	Ordinary shares Share'000
8 November 2007	-
Issue of shares	15,675
	<u>15,675</u>
31 December 2008	<u>15,675</u>

23. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Bank's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

Capital commitments – The Bank had no material commitments for capital expenditure outstanding as at 31 December 2008.

Operating lease commitments – No material rental commitments were outstanding as at 31 December 2008.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation – Due to the presence in Georgian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on the management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions, market level for deals' pricing. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements.

Pensions and retirement plans – Employees receive pension benefits from Government of Georgia in accordance with the laws and regulations of Georgia. As at 31 December 2008 the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Bank's principal business activities are within Georgia. Due to the recent conflict between Georgia and Russian Federation, the business environment is uncertain and may be subject to rapid change. The Bank's operations and assets could be at risk due to negative changes in the political, economic or business environment within Georgia and between Georgia and Russian Federation. The financial statements do not contain any adjustments, if any, that may arise from the realization of this uncertainty.

Recent volatility in global and Georgian financial markets – In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Georgia, notwithstanding any potential economic stabilization measures that may be put into place by the Government of Georgia, there exists economic uncertainties surrounding the continual availability, and cost, of credit both for the Bank and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may not be recovered at their carrying amount in the ordinary course of business, and a corresponding impact on the Bank's profitability.

Recoverability of financial assets – As a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing as at balance sheet date, there exists the potential that assets may not be recovered at their carrying amount in the regular course of business.

As at 31 December 2008, the Bank has financial assets amounting to GEL 60,972 thousand. The recoverability of these financial assets depends on a large extent on the efficacy of the fiscal measures and other measures and other actions, beyond the Bank's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the Bank's financial assets is determined based on conditions prevailing and information available as at balance sheet date. It is the management's opinion that no additional provision on financial assets is needed at present, based on prevailing conditions and available information.

24. GOING CONCERN

The financial statements have been prepared on the basis that the Bank will continue to be a going concern for the foreseeable future.

The Bank was established on 8 November 2007 and started active banking operations in 2008. The Bank has a net loss in the amount of GEL 4,144 thousand for the period from inception till 31 December 2008. The Bank has negative liquidity gaps in each time band up to 5 years as of 31 December 2008 (Note 29). The Bank's management does not consider losses for the period from inception till 31 December 2008 and negative liquidity gaps as of 31 December 2008 as factors affecting long-term viability of the Bank.

As at 31 December 2008 the Bank has breached Supervisory Capital Ratio (total capital reduced by intangible assets to risk weighted assets) and Property Investment Ratio (total investments and property, plant and equipment to total capital) requirements of the Financial Supervisory Agency of Georgia in relation to the Bank's net loss for the period from inception till 31 December 2008. As of 30 April 2009 the Bank is compliant with Supervisory Capital Ratio requirement as disclosed in Note 30. The Bank's management believes that in accordance with the regulations of the Financial Supervisory Agency of Georgia such incompliance will not lead to the imposition of penalties and fines.

As at 31 December 2008 the Bank was not in compliance with financial covenants related to due to banks in the amount of GEL 19,251 thousand and the Bank is in the process of obtaining the waiver from European Bank for Reconstruction and Development (Note 19). As disclosed in Note 30, as of 9 June 2009 none of the counterparty banks requested the Bank to repay the loans before maturity and the Bank has obtained a waiver from Global Commercial Microfinance Consortium Ltd for the third quarter of 2009 and has fully repaid according to contract payment terms the loans from ASN-Novib Fonds, Global Microfinance Facility and StichTing Triodos-Doen in the amount of GEL 7,154 thousand (Note 19).

The cost of financing and respectively the Bank's profitability are dependent on management being able to increase the Bank's share capital through capital contributions from international financial institutions and consequentially increase the accessibility to lower cost financing. The Bank concluded "Memorandum of Understanding" with Kreditanstalt für Wiederaufbau ("KfW") on 10 December 2008, according to which KfW within the framework of German Financial Cooperation is seeking to pursue equity investments in selected microfinance institutions in Georgia in order to contribute to increasing the access of micro, small and medium enterprises and low income households to adequate financial service. KfW is in the process of appraising substantial minority equity investments in the Bank. Subject to the consent of the German Government and the approval of the board of directors of KfW, the Bank aims at increasing of its share capital through capital contributions by KfW.

25. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives them significant influence over the Bank; and that have joint control over the Bank;
- (b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Bank is a venturer;
- (d) Members of key management personnel of the Bank or its parent;

- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Bank and other related parties are disclosed below:

	31 December 2008	
	Related party balances	Total category as per financial statements caption
Loans to customers	1,221	55,923
<i>- shareholders</i>	1,221	
Customer accounts	13	1,122
<i>- shareholders</i>	13	

The remuneration of directors and other members of key management was as follows:

	31 December 2008	
	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:		
<i>- short-term employee benefits</i>	437	6,560

Included in the statement of operations for the period from inception till 31 December 2008 the following amounts which arose due to transactions with related parties:

	Period from inception till 31 December 2008	
	Related party transactions	Total category as per financial statements caption
Interest income	116	14,859
<i>- shareholders</i>	116	

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Bank is presented below:

	31 December 2008	
	Carrying value	Fair value
Cash and balances with the NBG	2,488	2,488
Financial assets through profit or loss	250	250
Due from banks	2,041	2,041
Loans to customers	55,923	55,923
Investments available-for-sale	54	54
Due to banks	57,544	57,544
Customer accounts	1,122	1,122

27. REGULATORY MATTERS

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes:

	31 December 2008
Movement in tier 1 capital:	
Issue of ordinary shares	15,675
Net loss	(4,144)
At 31 December 2008	11,531
	31 December 2008
Composition of regulatory capital:	
Tier 1 capital:	
Share capital	15,675
Accumulated deficit	(4,144)
Total qualifying tier 1 capital	11,531
Less: Loans to shareholders and other related parties	(1,221)
Total regulatory capital	10,310
Capital Ratios:	
Tier 1 capital	17.38%
Total capital	15.54%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee.

28. CAPITAL RISK MANAGEMENT

The Bank manages its capital to ensure that entities in the Bank will be able to continue as a going concern.

The capital structure of the Bank consists of issued capital and accumulated deficit as disclosed in the statements of changes in equity.

The Shareholders Board reviews the capital structure on an annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Bank balances its overall capital structure new share issues as well as the issue of new debt or the redemption of existing debt. As disclosed in Note 24 the Bank's management is planning to increase the share capital of the Bank in 2009 and concluded "Memorandum of Understanding" with KFW on 10 December 2008.

29. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit exposures
- Liquidity risk
- Market risk

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Bank's Management Board.

Where appropriate, and in the case of most loans, the Bank obtains collateral and personal guarantee. However, a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Maximum exposure of credit risk

The Bank's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For other off balance sheet assets, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As of December 31 2008 the Cash and Cash equivalents in the NBG amounted to GEL 51 thousand. The credit rating of Georgia according to the international rating agencies in 2008 corresponded to investment level BB-.

The following table details the credit ratings of financial assets held by the Bank as at 31 December 2008:

	AAA	AA-	A	BBB	<BBB	Not rated	Total at 31 December 2008
Financial assets at fair value through profit or loss	-	-	-	-	250	-	250
Due from banks	1,643	293	-	-	105	-	2,041
Loans to customers	-	-	-	-	-	55,923	55,923
Investments available-for-sale	-	-	-	-	-	54	54
Other financial assets	-	-	-	-	-	216	216

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in Georgia.

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

	Georgia	Other non-OECD countries	OECD countries	31 December 2008 Total
FINANCIAL ASSETS				
Cash and balances with the NBG	2,488	-	-	2,488
Financial assets through profit or loss	250	-	-	250
Due from banks	1,729	292	20	2,041
Loans to customers	55,923	-	-	55,923
Investments available-for-sale	54	-	-	54
Other financial assets	192	-	24	216
TOTAL FINANCIAL ASSETS	60,636	292	44	60,972
FINANCIAL LIABILITIES				
Due to banks	5,876	9,173	42,495	57,544
Customer accounts	1,122	-	-	1,122
Other financial liabilities	34	-	5	39
TOTAL FINANCIAL LIABILITIES	7,032	9,173	42,500	58,705
NET POSITION	53,604	(8,881)	(42,456)	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The ALMC controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Further is analysis of liquidity and interest rate risks:

- (a) term to maturity of financial liabilities, that are not derivatives, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Bank will be liable to redeem the liability, and
- (b) estimated term till maturity of financial assets, that are not derivatives, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Bank expects that cash flows will be received in the different time.

An analysis of the liquidity and interest rate risks is presented in the following tables. The presentation below is based upon the information provided internally to key management personnel of the entity.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL ASSETS							
Financial assets through profit or loss	250	-	-	-	-	-	250
Due from banks	2,041	-	-	-	-	-	2,041
Loans to customers	4,609	7,030	25,371	17,256	1,657	-	55,923
Total interest bearing financial assets	6,900	7,030	25,371	17,256	1,657	-	58,214
Cash and balances with the NBG	2,488	-	-	-	-	-	2,488
Investments available-for-sale	-	-	-	-	-	54	54
Other financial assets	38	-	21	3	-	154	216
Total financial assets	9,426	7,030	25,392	17,259	1,657	208	60,972
FINANCIAL LIABILITIES							
Due to banks	19,589	8,250	21,063	8,642	-	-	57,544
Customer accounts	-	505	-	-	-	-	505
Total interest bearing financial liabilities	19,589	8,755	21,063	8,642	-	-	58,049
Customer accounts	617	-	-	-	-	-	617
Other financial liabilities	39	-	-	-	-	-	39
Total financial liabilities	20,245	8,755	21,063	8,642	-	-	58,705
Liquidity gap	(10,819)	(1,725)	4,329	8,617	1,657	-	-
Interest sensitivity gap	(12,689)	(1,725)	4,308	8,614	1,657	-	-
Cumulative interest sensitivity gap	(12,689)	(14,414)	(10,106)	(1,492)	165	-	-
Cumulative interest sensitivity gap as a percentage of total assets	(18%)	(20%)	(14%)	(2%)	0%	-	-

The amounts disclosed in the table below reflect the actual repayment of the Bank's liabilities:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL LIABILITIES							
Due to banks	3,376	9,229	26,039	18,900			57,544
Customer accounts	-	-	505	-	-	-	505
Total interest bearing financial liabilities	3,376	9,229	26,544	18,900	-	-	58,049
Customer accounts	90	195	332	-	-	-	617
Other financial liabilities	39	-	-	-	-	-	39
Total financial liabilities	3,505	9,424	26,876	18,900	-	-	58,705
Liquidity gap	5,921	(2,394)	(1,484)	(1,641)	1,657		
Interest sensitivity gap	3,524	(2,199)	(1,173)	(1,644)	1,657		
Cumulative interest sensitivity gap	3,524	1,325	152	(1,492)	165		
Cumulative interest sensitivity gap as a percentage of total assets	5%	2%	-%	(2%)	-%		

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in the table below do not correspond to the amounts recorded on the balance sheet as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the balance sheet under the effective interest rate method.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL LIABILITIES								
Due to banks	10.02%	19,654	8,887	23,863	14,519	-	-	66,923
Customer accounts	15.00%	6	515	-	-	-	-	521
Total interest bearing financial liabilities		19,660	9,402	23,863	14,519	-	-	67,444
Customer accounts		617	-	-	-	-	-	617
Other financial liabilities		39	-	-	-	-	-	39
Total financial liabilities		20,316	9,402	23,863	14,519	-	-	68,100

The following table presents a disclosure of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

	2008		
	GEL	USD	Other currencies
ASSETS			
Due from banks	3.77%	7.22%	10.60%
Loans to customers	35.91%	23.86%	-%
LIABILITIES			
Due to banks	13.86%	9.36%	10.66%
Customer accounts	20.00%	15.00%	-%

Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. There have been no changes as to the way the Bank measures risk or to the risk it is exposed.

The ALMC also manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with a positive interest margin. The Bank's management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

Interest rate sensitivity

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Bank's management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax based on asset values as at 31 December 2008:

	As at 31 December 2008	
	Interest rate +2%	Interest rate -2%
Financial assets:		
Due from banks	82	(82)
Loans to customers	1,021	(1,021)
Financial liabilities:		
Due to banks	(996)	996
Customer accounts	(13)	13
Net impact on profit before tax	94	(94)

Impact on shareholders equity:

	As at 31 December 2008	
	Interest rate +2%	Interest rate -2%
Financial assets:		
Due from banks	70	(70)
Loans to customers	868	(868)
Financial liabilities:		
Due to banks	(847)	847
Customer accounts	(11)	11
Net impact on shareholders equity	80	(80)

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the Financial Supervisory Agency of Georgia.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	GEL	USD USD 1 = 1.6670 GEL	EUR EUR 1 = 2.3648 GEL	Other currency	31 December 2008 Total
Financial assets					
Cash and balances with the NBG	902	1,454	132	-	2,488
Financial assets at fair value through profit or loss	250	-	-	-	250
Due from banks	1,465	554	22	-	2,041
Loans to customers	1,693	54,230	-	-	55,923
Investments available-for-sale	54	-	-	-	54
Other financial assets	193	20	-	3	216
Total financial assets	4,557	56,258	154	3	60,972
Financial liabilities					
Due to banks	96	57,448	-	-	57,544
Customer accounts	82	1,038	2	-	1,122
Other financial liabilities	35	4	-	-	39
Total financial liabilities	213	58,490	2	-	58,705
OPEN BALANCE SHEET POSITION	4,344	(2,232)	152	3	

Derivative financial instruments

Transactions are undertaken in derivative financial instruments ("derivatives"), which include cross currency swaps. Derivatives are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date.

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk:

	GEL	USD USD 1 = 1.6670 GEL	EUR EUR 1 = 2.3648 GEL	Other currency	31 December 2008 Total
Accounts payable on derivative contracts	(1,415)	-	-	-	(1,415)
Accounts receivable on derivative contracts	-	1,667	-	-	1,667
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	<u>(1,415)</u>	<u>1,667</u>	<u>-</u>	<u>-</u>	
TOTAL OPEN POSITION	<u>2,929</u>	<u>(565)</u>	<u>152</u>	<u>3</u>	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 10% increase and decrease in the USD against the GEL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Bank where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

Impact on net profit and equity based on asset values as at 31 December 2008:

	As at 31 December 2008	
	GEL/USD +10%	GEL/USD -10%
Impact on profit or loss	692	(692)
Impact on equity	588	(588)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

30. SUBSEQUENT EVENTS

On 2 April 2009 the Bank signed a loan agreement with SNS Institutional Microfinance Fund II, an international financial institution registered in Netherlands, in the amount of USD 750 thousand repayable in full at maturity on 30 April 2011.

On 29 April 2009 the Bank signed a promissory note with Dual Return Fund S.I.C.A.V., an investment company registered in Luxemburg, representing Vision Microfinance Sub-Fund, for the amount of USD 1,000 thousand repayable in two equal installments on 29 October 2010 and 29 April 2011.

On 11 May 2009 the Bank signed a promissory note with Dual Return Fund S.I.C.A.V for the amount of USD 1,000 thousand repayable in two equal installments on 11 November 2010 and 11 May 2011.

On 31 March 2009, the Bank fully repaid a loan from ASN-Novib Fonds disclosed in Note 19.

On 30 April 2009 the Bank fully repaid loans from Global Microfinance Facility and StichTing Triodos-Doen disclosed in Note 19.

As of 30 April 2009 the Bank is compliant with Supervisory Capital Ratio requirement of the Financial Supervisory Agency of Georgia that was breached as of 31 December 2008 (Note 24).

On 27 May 2009 the Bank signed a promissory note with Wallberg Invest S. A. for the amount of USD 1,000 thousand. USD 500 thousand is repayable on 27 August 2010 and the remaining principal is due on 27 February 2011.

As of 9 June 2009 none of the counterparty banks requested the Bank to repay the loans before maturity and the Bank has obtained a waiver from Global Commercial Microfinance Consortium Ltd for the third quarter of 2009 and is in the process of obtaining a waiver from European Bank for Reconstruction and Development in relation to the two remaining loans for which the financial covenants are breached as of 31 December 2008 (Note 19).