

Bank Constanta

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

31 December 2010

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Independent Auditor's Report

To the Shareholders and Board of Directors of Bank Constanta:

- 1 We have audited the accompanying financial statements of Bank Constanta which comprise the statement of financial position as of 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these 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.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

5 May 2011
Tbilisi, Georgia

Bank Constanta
Statement of Financial Position

<i>In thousands of GEL</i>	Note	31 December 2010	31 December 2009
Assets			
Cash and cash equivalents	7	4,557	5,116
Mandatory minimum reserve with National Bank of Georgia	8	3,016	31
Loans and advances to customers	9	68,276	51,740
Other financial assets	10	625	482
Deferred income tax asset	22	50	464
Intangible assets	11	731	586
Premises and equipment	11	7,299	7,235
Other assets	12	461	318
Total assets		85,015	65,972
Liabilities			
Customer accounts	13	1,906	993
Other financial liabilities		103	44
Other liabilities	14	266	402
Other borrowed funds	15	67,227	52,844
Total liabilities		69,502	54,283
EQUITY			
Share capital	16	17,406	15,675
Accumulated deficit		(1,893)	(3,986)
Total equity		15,513	11,689
Total liabilities and equity		85,015	65,972

Approved for issue and signed on behalf of the Board of Directors on 5 May 2011.

Levan Lebanidze
 General Director

Zviad Mirianashvili
 Finance Director

Bank Constanta
Statement of Comprehensive Income

<i>In thousands of GEL</i>	Note	2010	2009
Interest income	17	19,840	15,657
Interest expense	17	(5,468)	(4,549)
Net interest income		14,372	11,108
Provision for loan impairment	9	(974)	(1,651)
Net interest income after provision for loan impairment		13,398	9,457
Fee and commission income	18	473	253
Fee and commission expense	18	(134)	(45)
Gains less losses from trading in foreign currencies		495	225
Foreign exchange translation losses net of gains		(243)	(39)
Gains less losses arising from fair value of financial assets through profit or loss		-	12
Other operating income	19	1,112	552
Administrative and other operating expenses	21	(13,235)	(10,181)
Revenue from grants	20	642	-
Profit before tax		2,508	234
Income tax expense	22	(415)	(76)
Profit for the year		2,093	158
Total comprehensive income for the year		2,093	158

Bank Constanta
Statement of Changes in Equity

<i>In thousands of GEL</i>	Share capital	Accumulated deficit	Total
At 1 January 2009	15,675	(4,144)	11,531
Total comprehensive income for 2009	-	158	158
Balance at 31 December 2009	15,675	(3,986)	11,689
Share capital increase	1,731	-	1,731
Total comprehensive income for 2010	-	2,093	2,093
Balance at 31 December 2010	17,406	(1,893)	15,513

Bank Constanta
Statement of Cash Flows

<i>In thousands of GEL</i>	Note	2010	2009
Cash flows from operating activities			
Interest received		19,535	14,956
Interest paid		(5,000)	(4,794)
Fees and commissions received	18	473	253
Fees and commissions paid	18	(134)	(45)
Income received from trading in foreign currencies		495	225
Other operating income received	19	1,112	866
Grants received		312	401
Staff costs paid		(6,883)	(5,328)
Administrative and other operating expenses paid		(4,843)	(3,570)
Income tax paid	22	(1)	-
Cash flows from operating activities before changes in operating assets and liabilities		5,066	2,964
Net increase in mandatory minimum reserve with National Bank of Georgia		(2,985)	(10)
Net (increase)/decrease in loans and advances to customers		(17,205)	2,518
Net (increase)/decrease in other financial assets		(242)	67
Net (increase) in other assets		(143)	(237)
Net increase/(decrease) in customer accounts		913	(129)
Net increase/(decrease) in other financial liabilities		59	(33)
Net increase in other liabilities		43	89
Net cash (used in)/from operating activities		(14,494)	5,229
Cash flows from investing activities			
Acquisition of tangible assets	11	(230)	(278)
Acquisition of premises and equipment	11	(1,245)	(88)
Proceeds from disposal of premises and equipment		7	94
Net cash used in investing activities		(1,468)	(272)
Cash flows from financing activities			
Proceeds from other borrowed funds		33,532	14,329
Repayment of other borrowed funds		(19,930)	(18,650)
Issue of ordinary shares	16	1,731	-
Net cash from/(used in) financing activities		15,333	(4,321)
Effect of exchange rate changes on cash and cash equivalents		70	(28)
Net (decrease)/increase in cash and cash equivalents		(559)	608
Cash and cash equivalents at the beginning of the period	7	5,116	4,508
Cash and cash equivalents at the end of the year		4,557	5,116

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 for Constanta Bank (the "Bank").

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

As at 31 December 2010, the Bank's immediate parent company was LTD Constanta Plus with ownership interest of 77.45%, the ultimate parent was Microfinance Organisation Constanta Foundation ("the Foundation"). The founders transferred their authority to manage the Foundation to the Governing Board of the Foundation represented by Tamar Lebanidze, Manana Jakhua, Gela Vardziashvili, and Natela Turnava.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Georgia. The Bank has operated under a general banking licence issued by National Bank of Georgia ("NBS") since 3 July 2008. The Bank has 22 service centres within Georgia (2009: 22). As at 31 December 2010, the Bank had 412 employees (2009: 320).

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

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

2 Operating Environment of the Bank

The Bank's principal business activities are within Georgia. Georgia displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Georgian economy and situation in the financial and corporate sectors significantly deteriorated since mid-2008.

In 2009, the economy in Georgia showed tentative signs of recovery, but the external environment remained weak in terms of export market growth and uncertainty in the recovery of private capital inflows. Furthermore, domestic credit conditions were still very tight, although interest rates have started coming down. Since the economic downturn the authorities have allowed the exchange rate to adjust over time to facilitate external adjustment though they have periodically intervened to support the exchange rate in face of heavy foreign exchange pressure.

In 2010, the Georgian economy experienced a moderate recovery of economic growth and Georgian banking sector manifested positive trends. The recovery was accompanied by a gradual growth in the construction, banking and mining sectors, increase in exports, worker remittances and real estate transactions as supported by lower loan interest rates and improved crediting of the economy. However, reduced availability of external investment and continued uncertainty in external markets undermine Georgian exports and tourism and raise refinancing costs for both the public and the private sector.

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

3 Summary of Significant Accounting Policies

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Capitalisation of borrowing costs. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2010. Other borrowing costs are recognised as an expense using the effective interest method. The Bank capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The commencement date for capitalisation is when (a) the Bank incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

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

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

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

At 31 December 2010, the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.7728 (2009: USD 1 = GEL 1.6858); EUR 1 = GEL 2.35 (2009: EUR 1 = GEL 2.4195).

3 Summary of Significant Accounting Policies (Continued)

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

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

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

The effect of reclassifications for presentation purposes was as follows:

<i>In thousands of GEL</i>	As originally presented	Adjustment	As adjusted
Statement of financial position			
Cash and cash equivalents	5,147	(31)	5,116
Mandatory minimum reserve with National Bank of Georgia	-	31	31
Other financial assets	396	86	482
Other assets	404	(86)	318
Statement of cash flows			
Cash flows from operating activities	5,239	(10)	5,229

The third statement of financial position as of 1 January 2009 is not presented in these financial statements as a result of the above described changes in presentation. Management considered materiality and concluded that it is sufficient for an entity to present such information only in those notes that have been impacted by a restatement or a reclassification and state in the financial statements that the other notes have not been impacted by the restatement or reclassification. The omission of the notes to the additional opening statement of financial position is therefore, in management's view, not material.

The reclassifications in the statement of financial position and statement of cash flows had an impact on information in notes 7, 8, 10, 12 and had no impact on any other captions in the statement of financial position, statement of comprehensive income and related note disclosures.

Changes in presentation were due to the following:

- Mandatory minimum reserve with National Bank of Georgia was presented on the face of the statement of financial position.
- Receivables from money transfer services were reclassified from other assets to other financial assets.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

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

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

For the year ended 31 December 2010, the Bank has a total comprehensive income of GEL 2,093 thousand (2009: GEL 158 thousand) and a positive cumulative liquidity gap in the period up to 12 months of GEL 29,825 thousand (2009: GEL 4,249 thousand) as at 31 December 2010 (Note 23). The management believes the Bank is able to sustain profitability and a positive liquidity level in the foreseeable future.

As of 31 December 2010 the Bank was in compliance with all the regulatory requirements of the NBG. As of the report date and during 2010 and 2009, no penalties and fines or other adverse actions were imposed by NBG.

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of GEL 80 thousand (2009: GEL 55 thousand), respectively.

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

5 Adoption of New or Revised Standards and Interpretations

(a) Standards effective for annual periods beginning on or after 1 January 2010

The following new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have impact on these financial statements.

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

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

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

The revised IAS 27 did not have a material impact on these financial statements

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these financial statements.

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

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these financial statements.

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

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

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

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards*, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these financial statements.

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

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

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

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

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

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension

6 New Accounting Pronouncements (Continued)

plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Bank does not expect the amendments to have any material effect on its financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Bank does not expect the amendments to have any effect on its financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

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

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

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

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered

6 New Accounting Pronouncements (Continued)

by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment*, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Bank does not expect the amendments to have any material effect on its financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

The Bank does not expect the amendments to have any effect on its financial statements.

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

Bank Constanta
Notes to the Financial Statements – 31 December 2010

7 Cash and Cash Equivalents

<i>In thousands of GEL</i>	2010	2009	2008
Cash on hand	2,528	1,985	2,437
Cash balances with National Bank of Georgia (“NBG”)	201	493	30
Correspondent accounts and overnight placements with other banks	1,828	2,638	2,041
Total cash and cash equivalents	4,557	5,116	4,508

Interest rate analysis of cash and cash equivalents is disclosed in Note 22.

The credit quality of balances with NBG represented by the credit rating of “B+” assigned by Fitch for the Government of Georgia (2009: “B+”).

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

<i>In thousands of GEL</i>	2010	2009	2008
AA-	1,730	297	293
B	4	9	66
CCC	87	84	-
Not rated – subsidiary bank of major international bank	7	2,248	1,682
Total	1,828	2,638	2,041

8 Mandatory minimum reserve with National Bank of Georgia

<i>In thousands of GEL</i>	2010	2009	2008
Mandatory minimum reserve with National Bank of Georgia	3,016	31	21

The credit quality of mandatory minimum reserve with National Bank of Georgia balances is represented by the credit rating of “B+” assigned by Fitch for the Government of Georgia (2009: “B+”).

Interest rate analysis of mandatory minimum reserve with National Bank of Georgia is disclosed in Note 23.

9 Loans and Advances to Customers

<i>In thousands of GEL</i>	2010	2009
Trade and service	46,822	42,600
Agriculture	14,459	5,168
Production	3,669	4,763
Consumer loans	4,173	647
Less: Provision for loan impairment	(847)	(1,438)
Total loans and advances to customers	68,276	51,740

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

<i>In thousands of GEL</i>	Trade and service	Agriculture	Production	Consumer loans	Total
Provision for loan impairment at 1 January 2010	1,006	286	146	-	1,438
Provision for impairment during the year	527	(107)	(63)	617	974
Amounts written off during the year as uncollectible	(924)	(1)	(28)	(612)	(1,565)
Provision for loan impairment at 31 December 2010	609	178	55	5	847

9 Loans and Advances to Customers (Continued)

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

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

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

<i>In thousands of GEL</i>	2010		2009	
	Amount	%	Amount	%
Trade and service	46,822	68%	42,600	80%
Agriculture	14,459	21%	5,168	10%
Production	3,669	5%	4,763	9%
Other	4,173	6%	647	1%
Total loans and advances to customers (before impairment)	69,123	100%	53,178	100%

At 31 December 2010 the Bank had 12 borrowers (2009: 15 borrowers) with aggregated loan amounts above GEL 100 thousand. The total aggregate amount of these loans was 2,018 thousand (2009: GEL 2,273 thousand) or 2.9% of the gross loan portfolio (2009: 4.3 %).

Information about collateral at 31 December 2010 is as follows:

<i>In thousands of GEL</i>	Trade and service	Agriculture	Production	Consumer loans	Total
Unsecured loans	334	19	8	120	481
<i>Loans collateralised by:</i>					
Guarantees of individuals	28,304	12,621	1,957	2,859	45,741
Real estate	18,126	1,813	1,703	906	22,548
Other assets	50	5	0	21	76
Precious metals and cash deposits	8	1	1	267	277
Total loans and advances to customers	46,822	14,459	3,669	4,173	69,123

Information about collateral at 31 December 2009 is as follows:

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

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

9 Loans and Advances to Customers (Continued)

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

<i>In thousands of GEL</i>	Trade and service	Agriculture	Production	Consumer loans	Total
<i>Neither past due nor impaired</i>					
- Borrowers with credit history over two years	2,317	91	340	209	2,957
- New borrowers:					
Individual loans up to GEL 50 thousand	38,395	13,912	2,555	3,831	58,693
Individual loans above GEL 50 thousand	5,062	362	659	55	6,138
- Loans renegotiated in 2010	629	2	42	64	737
Total neither past due nor impaired	46,403	14,367	3,596	4,159	68,525
<i>Past due but not impaired</i>					
- less than 30 days overdue	94	36	40	13	183
- 30 to 60 days overdue	41	15	5	1	62
Total past due but not impaired	135	51	45	14	245
<i>Loans determined to be individually impaired (gross)</i>					
- less than 30 days overdue	103	1	4	-	108
- 30 to 90 days overdue	36	1	16	-	53
- 91 to 180 days overdue	145	39	8	-	192
Total impaired loans (gross)	284	41	28	-	353
Less impairment provisions	(609)	(178)	(55)	(5)	(847)
Total loans and advances to customers	46,213	14,281	3,614	4,168	68,276

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

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

9 Loans and Advances to Customers (Continued)

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

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired. Because the loans are individually insignificant as at 31 December 2010 and 2009, the individual impairment calculation is performed on the whole amount for efficiency purposes.

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2010 was as follows:

<i>In thousands of GEL</i>	Trade and service	Agriculture	Production	Consumer loans	Total
<i>Fair value of collateral - loans past due but not impaired</i>					
- Guarantees of individuals	113	26	16	7	162
- Real estate	22	24	24	3	73
<i>Fair value of collateral - individually impaired loans</i>					
- Guarantees of individuals	169	25	16	-	210
- Real estate	112	15	11	-	138
Total	416	90	67	10	583

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

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

The fair value of real estate at the end of the reporting period was estimated by indexing the values determined by the Bank's internal credit department staff at the time of loan inception for the average increases in real estate prices by city and region. The fair value of other real estate and other assets was determined by the Bank's credit department using the Bank's internal guidelines. It is impracticable to determine the fair values of guarantees of individuals as at 31 December 2010 and 2009.

Refer to Note 26 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 23. Information on related party balances is disclosed in Note 29.

10 Other Financial Assets

<i>In thousands of GEL</i>	2010	2009	2008
Receivables on money transfer services	298	86	25
Other receivables	273	330	159
Investments available for sale	54	54	54
Financial assets at fair value through profit or loss (Note 24)	-	12	250
Total other financial assets	625	482	488

Investments available for sale

The Bank together with 9 other Georgian banks established JSC United Clearing Centre (“the Company”) in October 2008. The Bank owns 6.25% of the Company as at 31 December 2010 (2009: 6.25%).

The investee has not published recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible. The Bank’s management could not reliably estimate the fair value of these equity investment securities. The Bank does not intend to dispose these shares in the foreseeable future. Management could not reliably estimate the fair value of the Bank’s investment in these shares. The equity investments are carried at cost of GEL 54 thousand (2009: GEL 54 thousand).

Analysis by credit quality of other financial assets (other than investment securities available for sale) is as follows:

<i>In thousands of GEL</i>	2010	2009	2008
<i>Current and not impaired</i>			
Receivables on money transfer services	298	86	25
Other receivables	273	330	159
Total other financial assets	571	416	184

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

Refer to Note 27 for the disclosure of the fair value of each class of other financial assets. Information on related party balances is disclosed in Note 29.

11 Premises, Equipment and Intangible Assets

<i>In thousands of GEL</i>	Note	Premises	Office and computer equipment	Construction in progress	Leasehold improvements	Total premises and equipment	Computer software licences	Total
Carrying amount at 31 December 2008		3,965	2,806	-	1,694	8,465	367	8,832
Additions		-	76	-	12	88	278	366
Disposals		(223)	(188)	-	(209)	(620)	-	(620)
Depreciation and amortisation charge	21	(82)	(788)	-	(354)	(1,224)	(59)	(1,283)
Elimination of accumulated depreciation on disposals		223	180	-	123	526	-	526
Cost at 31 December 2009		3,982	3,283	-	1,978	9,243	678	9,921
Accumulated depreciation and amortisation		(99)	(1,197)	-	(712)	(2,008)	(92)	(2,100)
Carrying amount at 31 December 2009		3,883	2,086	-	1,266	7,235	586	7,821

11 Premises, Equipment and Intangible Assets (Continued)

<i>In thousands of GEL</i>	Note	Premises	Office and computer equipment	Construction in progress	Leasehold improvements	Total premises and equipment	Computer software licences	Total
Carrying amount at 31 December 2009		3,883	2,086	-	1,266	7,235	586	7,821
Additions		14	383	832	16	1,245	230	1,475
Disposals		-	(329)	(3)	-	(332)	(2)	(334)
Transfers		261	-	(261)	-	-	-	-
Depreciation and amortisation charge	21	(82)	(774)	-	(317)	(1,173)	(85)	(1,258)
Elimination of accumulated depreciation on disposals		-	324	-	-	324	2	326
Cost at 31 December 2010		4,257	3,337	568	1,994	10,156	906	11,062
Accumulated depreciation and amortisation		(181)	(1,647)	-	(1,029)	(2,857)	(175)	(3,032)
Carrying amount at 31 December 2010		4,076	1,690	568	965	7,299	731	8,030

12 Other Assets

<i>In thousands of GEL</i>	2010	2009	2008
<i>Non-current:</i>			
Repossessed collateral	193	150	45
<i>Current:</i>			
Prepayments	165	67	34
Inventory	72	40	29
Tax assets other than income tax	31	61	34
Total current other assets	268	168	97
Total other assets	461	318	142

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

13 Customer Accounts

<i>In thousands of GEL</i>	2010	2009
Legal entities		
- Current/settlement accounts	821	493
Individuals		
- Current/demand accounts	1,085	500
Total customer accounts	1,906	993

13 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of GEL</i>	2010		2009	
	Amount	%	Amount	%
Individuals	1,085	57%	500	50%
Trade and services	699	37%	476	48%
Agriculture	3	0%	7	1%
Other sectors	119	6%	10	1%
Total customer accounts	1,906	100%	993	100%

At 31 December 2010 the Bank had nil customers (2009: 1 customer) with balance above GEL 100 thousand. The aggregate balance of these customers was GEL nil (2009: GEL 121 thousand) or nil% (2009: 13%) of total customer accounts.

Refer to Note 27 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 23. Information on related party balances is disclosed in Note 29.

14 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of GEL</i>	2010	2009
Accrued employee benefit costs	151	-
Unearned grants	73	401
Prepayments received	28	-
Taxes payable other than income tax	3	1
Other liabilities	11	-
Total other liabilities	266	402

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

15 Other Borrowed Funds

<i>In thousands of GEL</i>	2010	2009
International financial institutions	63,630	46,055
Loans from non-resident commercial banks	3,597	6,789
Total other borrowed funds	67,227	52,844

Bank Constanta
Notes to the Financial Statements – 31 December 2010

15 Other Borrowed Funds (Continued)

The following table provides a detailed breakdown for other borrowed funds:

<i>In thousands of Gel</i>	Original Currency	Maturity Date	Total Outstanding 2010	Total Outstanding 2009
Loans from international Financial Institutions:				
Pettelaar Effectenbewaarbedrijf N.V.	USD	31-May-12	7,334	6,959
Blue Orchard Loans for Development S.A.	USD	31-May-12	7,127	6,777
KCD Mikrofinanzfonds	USD	15-Nov-11	3,582	-
KCD Mikrofinanzfonds	USD	13-Nov-12	3,578	-
KCD Mikrofinanzfonds	USD	17-Dec-13	3,556	-
Selectum Sicav-Sif – BL Microfinance Sub-Fund	USD	30-Nov-13	3,534	-
OikoCredit, Ecumenical Development Cooperative Society U.A.	GEL	28-Oct-13	2,535	-
Credit Suisse Microfinance Fund Management Company	USD	14-May-13	2,016	-
EBRD	USD	24-Nov-11	1,921	3,661
Walleberg Invest S.A.	USD	29-Mar-12	1,886	-
Impulse Microfinance Investment Fund NV	USD	23-Feb-13	1,820	-
Impulse Microfinance Investment Fund NV	USD	23-Feb-13	1,816	-
Volksvermogen	USD	11-Mar-13	1,806	-
Responsability Sicav	USD	9-Nov-13	1,794	-
Credit Suisse Microfinance Fund Management Company	USD	09-Jun-11	1,783	1,695
OikoCredit, Ecumenical Development Cooperative Society U.A.	USD	30-Jul-13	1,546	-
Pettelaar Effectenbewaarbedrijf N.V.	USD	30-Apr-11	1,355	1,282
Credit Suisse Microfinance Fund Management Company	USD	24-Feb-12	917	872
Responsability Sicav	USD	24-Feb-12	917	872
Walleberg Invest S.A.	USD	27-Feb-11	916	1,701
Finethic Microfinance, Societe en Commandite par Actions (S.C.A.)	USD	01-Sep-11	915	870
Walleberg Invest S.A.	USD	27-Aug-12	911	-
OikoCredit, Ecumenical Development Cooperative Society U.A.	USD	27-Sep-11	902	1,715
Dual Return Fund S.I.C.A.V	USD	29-Apr-11	901	1,714
Dual Return Fund S.I.C.A.V	USD	11-May-11	898	1,709
Dual Return Fund S.I.C.A.V.	USD	29-Oct-12	898	-
Credit Suisse Microfinance Fund Management Company	USD	09-Nov-13	897	-
Calvert Social Investment Foundation	USD	15-Aug-12	896	852
Dual Return Fund S.I.C.A.V.	USD	11-Nov-12	896	-
Natixis Impact Nord Sub Development	USD	29-Apr-12	896	-
Netri Private Foundation	USD	29-Dec-11	887	-
Responsability Sicav	USD	27-May-13	670	-
Dual Return Fund S.I.C.A.V.	EUR	11-Feb-11	486	-
Dual Return Fund S.I.C.A.V	USD	21-Aug-11	459	436
OikoCredit, Ecumenical Development Cooperative Society U.A.	USD	15-Jan-11	379	4,772
Dual Return Fund S.I.C.A.V.	USD	04-Mar-10	-	869
EMF Microfinance Fund	USD	23-Dec-10	-	1,689
Finethic Microfinance, Societe en Commandite par Actions (S.C.A.)	USD	05-Mar-10	-	868
Global Commercial Microfinance Consortium	USD	03-Nov-10	-	6,742
Total loans from international financial institutions			63,630	46,055

15 Other Borrowed Funds (Continued)

<i>In thousands of Gel</i>	Original Currency	Maturity Date	Total Outstanding 2010	Total Outstanding 2009
Loans from Non-Resident Commercial Banks:				
VDK spaarbank n.v.	USD	24-Aug-12	1,817	-
VDK spaarbank n.v.	USD	25-Oct-12	1,780	-
Bank IM Bistum Essen e.G.	USD	13-Nov-12	-	3,395
Bank IM Bistum Essen e.G.	USD	15-May-11	-	3,394
Total loans from non-resident commercial banks			3,597	6,789

At 31 December 2010, the Bank was in compliance with all the financial covenants stipulated in the loan agreements. Refer to Note 27 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 23. Information on related party balances is disclosed in Note 29.

16 Share Capital

<i>In thousands of GEL except for number of shares</i>	Number of outstanding shares (in thousands)	Ordinary shares	Total share capital
At 1 January 2009	15,675	15,675	15,675
At 31 December 2009	15,675	15,675	15,675
New shares issued	2,308	1,731	1,731
At 31 December 2010	17,983	17,406	17,406

The total authorised number of ordinary Class A shares is 15,675 thousand, and the total authorised number of ordinary Class B shares is 2,308 thousand. (2009: 15,675 thousand Class A ordinary shares; No Class B shares were outstanding in 2009) with a par value for Class A ordinary Share of GEL 1 per share and with a par value for Class B ordinary share of GEL 0.75 per share. (2009: GEL 1 per Class A ordinary share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

17 Interest Income and Expense

<i>In thousands of GEL</i>	2010	2009
Interest income		
Loans and advances to customers	19,732	15,544
Due from other banks	108	113
Total interest income	19,840	15,657
Interest expense		
Loans from international financial institutions	(5,380)	(4,043)
Loans from other banks	(87)	(454)
Term deposits of individuals	(1)	(52)
Total interest expense	(5,468)	(4,549)
Net interest income	14,372	11,108

18 Fee and Commission Income and Expense

<i>In thousands of GEL</i>	2010	2009
Fee and commission income		
- Administrative fee on customer accounts	202	108
- Credit history filing	120	97
- Settlement transactions	99	32
- Cash transactions	12	3
- Other	40	13
Total fee and commission income	473	253
Fee and commission expense		
- Settlement transactions	(31)	(16)
- Bloomberg membership fees	(41)	(22)
- Cash transactions	(3)	(6)
- Other	(59)	(1)
Total fee and commission expense	(134)	(45)
Net fee and commission income	339	208

19 Other Operating Income

<i>In thousands of GEL</i>	2010	2009
Income from loans previously written-off	1,044	440
Gain on disposal of premises and equipment	-	1
Other	68	111
Total other operating income	1,112	552

20 Revenue from Grants

<i>In thousands of GEL</i>	2010	2009
Income from UNDP Grant Agreement	464	-
Income from UMCOR Grant Agreement	178	-
Total revenue from grants	642	-

Funds were transferred to the Bank's ownership as a result of the Bank meeting performance standards and targets set forth in respective grant and loan agreements.

21 Administrative and Other Operating Expenses

<i>In thousands of GEL</i>	Note	2010	2009
Staff costs		7,034	5,328
Occupancy and rent		1,366	1,299
Depreciation and amortisation	11	1,258	1,283
Taxes other than on income		734	337
Advertising and marketing services		346	56
Communication services		308	286
Professional services		266	173
Representative expenses		250	158
Security services		247	304
Transportation expenses		232	27
Repair and maintenance of premises and equipment		195	181
Stationery		192	89
Business trip expenses		175	89
Utility services		165	167
Fuel expenses		121	120
Insurance services		17	21
Other		329	263
Total administrative and other operating expenses		13,235	10,181

22 Income Taxes

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

Income tax expense recorded in profit or loss for the year comprises the following:

<i>In thousands of GEL</i>	2010	2009
Current tax	(1)	-
Deferred tax expense	(414)	(76)
Income tax expense	(415)	(76)

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

The income tax rate applicable to the majority of the Bank's 2010 income is 15% (2009: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of GEL</i>	2009	2009
IFRS profit before tax	2,508	234
Theoretical tax charge at statutory rate (2009: 15%)	(376)	(35)
Tax effect of non-deductible expenses	(39)	(41)
Income tax expense for the year	(415)	(76)

(c) Deferred taxes analysed by type of temporary difference

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

22 Income Taxes (Continued)

	1 January 2009	Credited / (Charged) to profit and loss	31 December 2009	Credited / (Charged) to profit and loss	31 December 2010
<i>In thousands of GEL</i>					
Tax effect of taxable temporary differences					
Tax losses carried forward	740	(182)	558	(410)	148
Loans and advances to customers	5	59	64	(61)	3
Other financial assets	-	16	16	(16)	-
Premises equipment and intangible assets	(196)	39	(157)	30	(127)
Other assets	(9)	12	3	26	29
Other liabilities	-	-	-	34	34
Other borrowed funds	-	(20)	(20)	(17)	(37)
Deferred tax asset	540	(76)	464	(414)	50

The Bank recognised deferred tax assets in respect of tax loss carry forwards of GEL 148 thousand (2009: GEL 558). In accordance with Georgian tax legislation business and capital losses may be carried forward for up to 5 years. Management believes the Bank will have enough taxable profit to fully utilise these tax loss carry forwards until they expire.

As at 31 December 2010, deferred tax asset in the amount of GEL 50 thousand is expected to be recovered within the next 12 months (2009: GEL 464 thousand).

23 Financial Risk Management

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

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

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

- The Bank's board of directors is required to review and approve all amounts above GEL 124 thousand (equivalent of USD 70 thousand). It is also responsible for issuing guidance to the Bank's credit committee in relation to all other loans; and
- The Bank's Credit committee reviews and approves all amounts below GEL 124 thousand (equivalent of USD 70 thousand). The Credit Committee meets on a weekly basis.

As at 31 December 2010, the breakdown of the loan portfolio by economic and product sectors is provided in Note 8.

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

23 Financial Risk Management (Continued)

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

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

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

Maximum exposure to credit risk. The Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position, except for loans and advances to customers. Maximum exposure to credit risk of customer loans is disclosed in Note 9. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 25.

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

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

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

Bank's exposure to foreign currency exchange rate risk at 31 December 2010 is as follows:

<i>In thousands of GEL</i>	Monetary financial assets	Monetary financial liabilities	Net position
Georgian Lari	12,077	3,117	8,960
US Dollars	63,905	65,612	(1,707)
EURO	490	507	(17)
Other	2	-	2
Total	76,474	69,236	7,238

23 Financial Risk Management (Continued)

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

<i>In thousands of GEL</i>	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	7,165	262	(1,855)	5,048
US Dollars	50,075	53,619	1,867	(1,677)
EURO	127	-	-	127
Other	2	-	-	2
Total	57,369	53,881	12	3,500

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

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

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

<i>In thousands of GEL</i>	At 31 December 2010		At 31 December 2009	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
US Dollar strengthening by 10%	(171)	(145)	(168)	(143)
US Dollar weakening by 10%	171	145	168	143
Euro strengthening by 10%	(2)	(1)	13	11
Euro weakening by 10%	2	1	(13)	(11)

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

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

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

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

23 Financial Risk Management (Continued)

<i>In thousands of GEL</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non- interest bearing	Total
31 December 2010						
Total financial assets	5,260	7,807	33,443	22,075	7,889	76,474
Total financial liabilities	1,047	4,716	15,577	45,748	2,148	69,236
Net interest sensitivity gap at 31 December 2010						
	4,213	3,091	17,866	(23,673)	5,741	7,238
31 December 2009						
Total financial assets	4,919	4,504	22,595	22,388	2,963	57,369
Total financial liabilities	18,881	2,607	8,176	23,180	1,035	53,879
Net interest sensitivity gap at 31 December 2009						
	(13,962)	1,897	14,419	(792)	1,928	3,490

At 31 December 2010, if interest rates at that date had been 200 basis points lower (2009: 200 basis points lower) with all other variables held constant, profit for the year would have been GEL 44 thousand (2009: GEL 96 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 200 basis points higher (2009: 200 basis points higher), with all other variables held constant, profit would have been GEL 44 thousand (2009: GEL 96 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

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

<i>In % p.a.</i>	2010			2009		
	GEL	USD	Other	GEL	USD	Other
Assets						
Cash and cash equivalents	-	-	-	-	5.00%	-
Loans and advances to customers						
- Trade and service	35.30%	24.70%	-	44.59%	30.63%	-
- Agriculture	32.90%	30.90%	-	44.92%	34.02%	-
- Production	35.10%	24.40%	-	42.71%	30.36%	-
- Consumer loans	33.90%	27.70%	-	42.58%	19.67%	-
Liabilities						
Other borrowed funds	13.70%	8.60%	8.80%	-	8.89%	-

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

23 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2010 is set out below:

<i>In thousands of GEL</i>	Georgia	OECD	Total
Financial assets			
Cash and cash equivalents	2,827	1,730	4,557
Mandatory minimum reserve with National Bank of Georgia	3,016	-	3,016
Loans and advances to customers	68,276	-	68,276
Other financial assets	625	-	625
Total financial assets	74,744	1,730	76,474
Financial liabilities			
Customer accounts	1,906	-	1,906
Other borrowed funds	-	67,227	67,227
Other financial liabilities	103	-	103
Total financial liabilities	2,009	67,227	69,236
Net position in on-balance sheet financial instruments	72,735	(65,497)	7,238
Credit related commitments	685		685

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

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

<i>In thousands of GEL</i>	Georgia	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	4,819	297	-	5,116
Mandatory minimum reserve with National Bank of Georgia	31	-	-	31
Loans and advances to customers	51,740	-	-	51,740
Other financial assets	482	-	-	482
Total financial assets	57,072	297	-	57,369
Financial liabilities				
Customer accounts	993	-	-	993
Other borrowed funds	-	44,418	8,426	52,844
Other financial liabilities	44	-	-	44
Total financial liabilities	1,037	44,418	8,426	53,881
Net position in on-balance sheet financial instruments	56,035	(44,121)	(8,426)	3,488
Credit related commitments	93	-	-	93

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining various reports relating to borrowings. The Bank did not have any such significant risk concentrations at 31 December 2010 and 2009.

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

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

23 Financial Risk Management (Continued)

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

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the National Bank of Georgia. The ratio that is monitored is liquidity ratio, which is calculated as the ratio of liquid assets to liabilities maturing within 60 calendar days. The ratio was 56.0% at 31 December 2010 (2009: 59.5%).

According to the instruction set by the NBG, the Bank calculates instant liquidity as a ratio of daily average liquid assets to daily average liquid liabilities. This ratio is calculated based on balances derived from statutory financial statements of the Bank. The National Bank of Georgia has in place minimum levels of liquidity required. As at 31 December 2010, the Bank complied with this requirement.

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

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

The undiscounted maturity analysis of financial liabilities at 31 December 2010 was, as follows:

<i>In thousands of GEL</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Total
Liabilities					
Customer accounts	1,906	-	-	-	1,906
Other financial liabilities	293	-	-	-	293
Other borrowed funds	1,261	3,683	18,313	52,760	76,017
Gross credit related commitments	685	-	-	-	685
Total potential future payments for financial obligations	4,145	3,683	18,313	52,760	78,901

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

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

23 Financial Risk Management (Continued)

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised, as follows, as at 31 December 2010:

<i>In thousands of GEL</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	4,557	-	-	-	-	4,557
Mandatory minimum reserve with National Bank of Georgia	-	-	-	3,016	-	3,016
Loans and advances to customers	4,951	7,807	33,443	21,458	617	68,276
Other financial assets	349	-	-	223	53	625
Total financial assets	9,857	7,807	33,443	24,697	670	76,474
Liabilities						
Customer accounts	1,906	-	-	-	-	1,906
Other borrowed funds	1,186	3,284	14,803	47,954	-	67,227
Other financial liabilities	103	-	-	-	-	103
Total financial liabilities	3,195	3,284	14,803	47,954	-	69,236
Liquidity gap at 31 December 2010	6,662	4,523	18,640	(23,257)	670	7,238
Cumulative liquidity gap at 31 December 2010	6,662	11,185	29,825	6,568	7,238	

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

<i>In thousands of GEL</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	5,116	-	-	-	-	5,116
Mandatory minimum reserve with National Bank of Georgia	-	-	-	31	-	31
Loans and advances to customers	2,253	4,504	22,595	20,595	1,793	51,740
Other financial assets	482	-	-	-	-	482
Total financial assets	7,851	4,504	22,595	20,626	1,793	57,369
Liabilities						
Customer accounts	993	-	-	-	-	993
Other borrowed funds	18,881	2,607	8,176	23,180	-	52,844
Other financial liabilities	44	-	-	-	-	44
Total financial liabilities	19,918	2,607	8,176	23,180	-	53,881
Liquidity gap at 31 December 2009	(12,067)	1,897	14,419	(2,554)	1,793	3,488
Cumulative liquidity gap at 31 December 2009	(12,067)	(10,170)	4,249	1,695	3,488	

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

24 Management of Capital

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

Under the current capital requirements set by NBG banks have to: (a) hold the minimum level of regulatory capital of GEL 12,000,000 (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 8%. The total capital that the Bank manages, which is the same as the amount of capital required for NBG statutory capital adequacy purposes, is GEL 16,074 thousand as at 31 December 2010 (2009: GEL 11,807 thousand).

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

<i>In thousands of GEL</i>	2010	2009
Tier 1 capital		
Share capital	17,406	15,676
Accumulated loss	(4,255)	(5,137)
Less: intangible assets	(731)	(586)
Total tier 1 capital after deductions	12,420	9,953
Tier 2 capital		
Current year profit	2,385	881
Reserves	1,329	983
Less: investments in subsidiaries	(60)	(10)
Total tier 2 capital	3,654	1,854
Total regulatory capital	16,074	11,807
Risk-weighted assets:		
On-balance sheet (A-Can)	108,951	86,882
Total risk-weighted assets	108,951	86,882
Core capital adequacy ratio (Tier 1)	11%	11%
Total capital adequacy ratio (Tier 1 and Tier 2)	15%	14%

25 Contingencies and Commitments

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

Compliance with covenants. The Bank is in compliance with all the covenants related to its borrowings.

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and state authorities. Recent events within Georgia suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar periods preceding the period of review. Under certain circumstances, reviews may cover longer periods. Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax position will be sustained. Accordingly, at 31 December 2010 and 2009 no provision for potential tax liabilities has been recorded.

25 Commitments and Contingencies (Continued)

Credit related commitments. Undrawn credit lines as at 31 December 2010 amounted to GEL 685 thousand (2009: GEL 93 thousand). The total outstanding contractual amount of undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was GEL 685 thousand at 31 December 2010 (2009: GEL 93 thousand).

26 Derivative Financial Instruments

At 31 December 2010 the Bank did not have derivative financial instruments in ownership.

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

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

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

27 Fair Value of Financial Instruments

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

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

<i>In thousands of GEL</i>	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Cash and cash equivalents	4,557	4,557	5,116	5,116
Mandatory minimum reserve with National Bank of Georgia	3,016	3,016	31	31
Loans and advances to customers				
- Trade and service	46,818	45,374	41,594	40,522
- Agriculture	13,849	14,191	4,882	4,834
- Production	3,614	3,549	4,617	4,555
- Consumer loans	3,995	4,122	647	512
Other receivables	571	571	428	428
Total Financial Assets Carried at Amortised Cost	76,420	75,380	57,315	55,998
Financial liabilities				
Customer accounts				
- Current/settlement accounts of legal entities	821	821	493	493
- Term deposits of legal entities	-	-	-	-
- Current/demand accounts of individuals	1,085	1,085	500	500
- Term deposits of individuals	-	-	-	-
Other borrowed funds	67,227	66,874	52,844	52,844
Other financial liabilities	103	103	42	42
Total Financial Liabilities Carried at Amortised Cost	69,236	69,236	53,879	53,879

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

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

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

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

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

	2010	2009
Cash and cash equivalents	0%	5% p.a.
Loans and advances to customers		
- Trade and service	25.2% to 35.7% p.a.	30.6% to 44.6% p.a.
- Agriculture	31.1% to 33.1% p.a.	34% to 44.9% p.a.
- Production	24.3% to 35.4% p.a.	30.4% to 42.7% p.a.
- Consumer loans	29.1% to 33.7% p.a.	19.7% to 42.6% p.a.
Customer accounts		
- Current/settlement accounts of legal entities	0%	0%
- Current/demand accounts of individuals	0%	0%
Other borrowed funds	8.6% to 13.7% p.a.	8.9%

28 Presentation of Financial Instruments by Measurement Category

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

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

<i>In thousands of GEL</i>	Loans and receivables	Available for sale assets	Total
Assets			
Cash and cash equivalents	-	-	4,557
Mandatory minimum reserve with National Bank of Georgia	3,016	-	3,016
Loans and advances to customers:			
- Trade and service	46,213	-	46,213
- Agriculture	14,281	-	14,281
- Production	3,614	-	3,614
- Consumer loans	4,168	-	4,168
Other financial assets:			
- Other financial receivables	571	-	571
- Corporate shares	-	54	54
Total financial assets	71,863	54	76,474
Non-financial assets			8,541
Total assets			85,015

As at 31 December 2010 and 2009 all of the Bank's financial liabilities were carried at amortised cost.

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

<i>In thousands of GEL</i>	Loans and receivables	Available for sale assets	FVTPL	Total
Assets				
Cash and cash equivalents	-	-	-	5,116
Mandatory minimum reserve with National Bank of Georgia	31	-	-	31
Loans and advances to customers:				
- Trade and service	41,594	-	-	41,594
- Agriculture	4,882	-	-	4,882
- Production	4,617	-	-	4,617
- Consumer loans	647	-	-	647
Other financial assets:				
- Other financial receivables	416	-	-	416
- Corporate shares	-	54	-	54
- Financial assets at fair value through profit or loss	-	-	12	12
Total financial assets	52,187	54	12	57,369
Non-financial assets				8,603
Total Assets				65,972

29 Related Party Transactions

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

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

<i>In thousands of GEL</i>	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13 %)	329	-
Impairment provisions for loans and advances to customers at 31 December	-	-
Customer accounts (contractual interest rate: 0 %)	13	-
Other Borrowed Funds (contractual interest rate: 7.75%- 13.44%)	-	5,362

The income and expense items with related parties for 2010 were as follows:

<i>In thousands of GEL</i>	Key management personnel	Other related parties
Interest income	109	-
Interest expense	-	165
Provision for loan impairment	(12)	-
Fee and commission expense	-	11
Foreign exchange translation gains less losses	-	2
Administrative and other operating expenses	853	-

Aggregate amounts lent to and repaid by related parties during 2010 were:

<i>In thousands of GEL</i>	Key management personnel
Amounts lent to related parties during the year	102
Amounts repaid by related parties during the year	848

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

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

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

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

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

<i>In thousands of GEL</i>	Ultimate parent	Key management personnel
Amounts lent to related parties during the year	-	14
Amounts repaid by related parties during the year	87	86

29 Related Party Transactions (Continued)

Key management compensation is presented below:

<i>In thousands of GEL</i>	2010		2009	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	837	-	743	-
Total	837	-	743	-

30 Events After the End of the Reporting Period

Change in ultimate controlling party. Subsequent to the reporting date, on April 19 2011, Bank Constanta's management signed a memorandum of understanding with a local bank, with regards to acquisition of a controlling stake of the Bank's voting shares. Subject of the memorandum was Bank Constanta's future collaboration with new potential owners of the Bank, confirming that the Bank would not be liquidated or re-organised as a result of the share purchase transaction. As of the date of signing of this report the transaction was not finalised.

Repayment of borrowings. During the subsequent period, the Bank repaid USD 1,250 thousand and EUR 200 thousand of its outstanding borrowings as at 31 December 2010.