



Accountants &  
business advisers

# **JSC T.C. ZIRAAT BANK'S TBILISI BRANCH**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

**AND**

**INDEPENDENT AUDITORS' REPORT**

## INDEPENDENT AUDITORS' REPORT

To the management of the JSC T.C. Ziraat Bank's Tbilisi Branch

### *Identification of the Financial Statements*

1. We have audited the accompanying balance sheet of JSC T.C. Ziraat Bank's Tbilisi Branch (the "Bank"), which comprise the statement of financial position as of December 31, 2009, and the related statements of results of operations, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

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

### *Opinion*

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

May 11, 2009  
Tbilisi, Georgia



|   | Note | December 31,<br>2009 | December 31,<br>2008 |
|---|------|----------------------|----------------------|
| <b>Assets</b>   |      |                      |                      |
| Cash and cash equivalents                                 | 5    | 5,912,861            | 13,326,423           |
| Mandatory cash balances with the National Bank of Georgia |      | 254,542              | 306,000              |
| Due from other banks                                      |      | -                    | 8,962                |
| Trading securities  |      | 13,840,736           | 6,384,449            |
| Loans to customers  | 6    | 980,110              | 1,437,513            |
| Profit tax paid in advance                                |      | 668,854              | 74,688               |
| Property, plant and equipment, net                        | 7    | 80,656               | 104,600              |
| Intangible assets, net                                    | 8    | 149,713              | 54,947               |
| Deferred tax asset  | 9    | 21,331               | 5,464                |
| Other assets  | 10   | 93,482               | 71,329               |
| <b>Total assets</b>                                       |      | <b>22,002,274</b>    | <b>21,774,375</b>    |
| <b>Liabilities</b>  |      |                      |                      |
| Due to other banks  |      | 206                  | 1,048                |
| Due to customers  | 11   | 5,738,581            | 5,596,368            |
| Other liabilities   |      | 360,018              | 944,756              |
| <b>Total liabilities</b>                                  |      | <b>6,098,805</b>     | <b>6,542,172</b>     |
| <b>Reserves</b>   |      |                      |                      |
| Reserve fund  | 12   | 15,232,203           | 13,063,863           |
| Period Result   |      | 671,266              | 2,168,340            |
| <b>Total reserves</b>                                     |      | <b>15,903,469</b>    | <b>15,232,203</b>    |
| <b>Total liabilities and reserves</b>                     |      | <b>22,002,274</b>    | <b>21,774,375</b>    |

Approved for issue by the Board of Directors and signed on its behalf on \_\_\_\_\_, 2010:

\_\_\_\_\_  
 Hasan Ferit Yucheyilmaz  
 General Director

\_\_\_\_\_  
 David Kistauri  
 Chief Accountant

**T.C. Ziraat Bank's Tbilisi Branch**  
**Statement of Results of Operations for the Year Ended December 31, 2009**  
*(Amounts are expressed in Georgian Lari (GEL) unless otherwise stated)*



|  | Note | Year 2009        | Year 2008        |
|--|------|------------------|------------------|
| <b>Interest income</b>   |      |                  |                  |
| Loans to customers   | 6    | 262,376          | 188,219          |
| Securities   |      | 944,076          | 1,666,202        |
| Due from other banks   |      | 2,294            | 281,502          |
|  |      | <b>1,208,746</b> | <b>2,135,923</b> |
| <b>Interest expense</b>  |      |                  |                  |
| Amounts due to customers   |      | (18,114)         | (27,435)         |
| Amounts due to credit institutions                                     |      | (798)            | (2,200)          |
|  |      | <b>(18,912)</b>  | <b>(29,635)</b>  |
| <b>Net interest income</b>   |      |                  |                  |
|  |      | <b>1,189,834</b> | <b>2,106,286</b> |
| Impairment of interest earning assets                                  | 13   | (329,613)        | (58,206)         |
| <b>Net interest income after impairment of interest earning assets</b> |      |                  |                  |
|  |      | <b>860,221</b>   | <b>2,048,080</b> |
| Fee and commission income  | 14   | 545,942          | 683,410          |
| Fee and commission expense   | 14   | (27,245)         | (12,802)         |
| <b>Net fee and commission income</b>                                   |      |                  |                  |
|  |      | <b>518,697</b>   | <b>670,608</b>   |
| <b>Gains less losses from foreign currencies:</b>                      |      |                  |                  |
| Dealing  |      | 393,748          | 661,361          |
| Translation Difference   |      | (11,053)         | 81,495           |
| Other operating income   |      | 121,926          | 34,236           |
| <b>Other non interest income</b>                                       |      |                  |                  |
|  |      | <b>504,621</b>   | <b>777,092</b>   |
| Operating expenses   | 15   | (1,228,140)      | (924,404)        |
| <b>Income (loss) before income tax expense</b>                         |      |                  |                  |
|  |      | <b>655,399</b>   | <b>2,571,376</b> |
| Income tax income(expense)   | 9    | 15,867           | (403,036)        |
| <b>Net income (loss) for the year</b>                                  |      |                  |                  |
|  |      | <b>671,266</b>   | <b>2,168,340</b> |

Approved for issue by the Board of Directors and signed on its behalf on \_\_\_\_\_, 2010:

\_\_\_\_\_  
 Hasan Ferit Yucheyilmaz  
 General Director

\_\_\_\_\_  
 David Kistauri  
 Chief Accountant



|   | Note | Year 2009      | Year 2008        |
|---|------|----------------|------------------|
| <b>Net profit (loss) for the year</b>                 |      | <b>671,266</b> | <b>2,168,340</b> |
| Other comprehensive income / (loss) for the period    |      | -              | -                |
| <b>Total comprehensive profit/loss for the period</b> |      | <b>671,266</b> | <b>2,168,340</b> |

Approved for issue by the Board of Directors and signed on its behalf on \_\_\_\_\_, 2010:

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General Director

\_\_\_\_\_  
David Kistauri  
Chief Accountant



|   | Year 2009          | Year 2008         |
|---|--------------------|-------------------|
| <b>Cash flow from operations</b>                                |                    |                   |
| Net Income  | 671,266            | 2,168,340         |
| Depreciation & Amortization                                     | 48,240             | 39,426            |
| Correction of retained earnings                                 | -                  | -                 |
| <b>Total</b>  | <b>719,506</b>     | <b>2,207,737</b>  |
| Mandatory cash balances with the National Bank of Georgia       | 51,458             | 569,380           |
| Net (increase)/decrease in due from other banks                 | 8,962              | (4,373)           |
| Net (increase)/decrease in trading securities                   | (7,456,290)        | 6,964,606         |
| Net (increase)/decrease in loans to customers                   | 457,403            | (731,032)         |
| Net (increase)/decrease in profit tax paid in advance           | (591,027)          | 19,666            |
| Net (increase)/decrease in prepaid taxes, other than profit tax | (3,139)            | -                 |
| Net (increase)/decrease in deferred tax asset                   | (15,867)           | 3,493             |
| Net (increase)/decrease in other assets                         | (22,153)           | 257,283           |
| Net increase/(decrease) in due to other banks                   | (842)              | (166)             |
| Net increase/(decrease) in due to customers                     | 142,213            | (222,347)         |
| Net increase/(decrease) in other liabilities                    | (584,738)          | 908,731           |
| <b>Total cash from operations</b>                               | <b>(8,014,018)</b> | <b>7,765,240</b>  |
| <b>Cash flow from investing activities</b>                      |                    |                   |
| Purchase of premises, equipment and intangible assets           | (119,061)          | (100,224)         |
| Proceeds from disposal of premises and equipment                | -                  | 70,419            |
| <b>Total cash from investment</b>                               | <b>(119,061)</b>   | <b>(29,805)</b>   |
| <b>Cash flow from financing activities</b>                      |                    |                   |
| Increase in reserve funds                                       | -                  | -                 |
| <b>Total cash from financing</b>                                | <b>-</b>           | <b>-</b>          |
| <b>Net Increase in cash and cash equivalents</b>                | <b>(7,413,573)</b> | <b>9,943,172</b>  |
| <b>Beginning Cash and Cash Equivalent</b>                       | <b>13,326,423</b>  | <b>3,383,251</b>  |
| <b>Ending Cash and Cash Equivalent</b>                          | <b>5,912,850</b>   | <b>13,326,423</b> |

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**T.C. Ziraat Bank's Tbilisi Branch**  
**Statement of Changes in Equity for the Year Ended December 31, 2009**  
*(Amounts are expressed in Georgian Lari (GEL) unless otherwise stated)*



|  | Reserve Fund      | Retained Earnings | Total Reserve Fund |
|--|-------------------|-------------------|--------------------|
| <b>Balance as at December 31, 2007</b> | <b>12,332,515</b> | <b>731,348</b>    | <b>13,063,863</b>  |
| Net profit                             | -                 | 2,168,340         | 2,168,340          |
| Reserve fund                           | 731,348           | (731,348)         | -                  |
| <b>Balance as at December 31, 2008</b> | <b>13,063,863</b> | <b>2,168,340</b>  | <b>15,232,203</b>  |
| Net profit                             |                   | 671,266           | 671,266            |
| Reserve fund                           | 2,168,340         | (2,168,340)       | -                  |
| <b>Balance as at December 31, 2009</b> | <b>15,232,203</b> | <b>671,266</b>    | <b>15,903,469</b>  |

Approved for issue by the Board of Directors and signed on its behalf on \_\_\_\_\_, 2010:

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 General Director

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 David Kistauri  
 Chief Accountant



## **1 Principal Activities**

Joint-Stock Company T.C. Ziraat Bank's Tbilisi Branch ("the Bank") is a commercial bank operating under a banking licence issued by the National Bank of Georgia ("NBG"). The Bank was founded on March 2, 1998 by Joint-Stock Company T. Emlak Bank with the name T. Emlak Bank's Tbilisi branch. In 2001, there was a partial transfer of assets and liabilities from T. Emlak Bank to T.C. Ziraat Bank. For this reason in September 2001 the bank changed its name and was registered under the name of T.C. Ziraat Bank's Tbilisi Branch. The Bank's registered office is located at the following address: 148 David Agmashenebeli Avenue, Tbilisi 0102, Georgia.

Under the banking licence issued by the National Bank of Georgia, the Bank could carry out all banking operations, but based on request of Bank's head office the NBG on March 27, 2002 had limited the license and suspended the right to issue credits and guarantees to costumers(see Note 7). Although, on December 22, 2006, as per response letter of the National Bank of Georgia, the requirements of general management of T.C. Ziraat Bank's head office for obtaining the right to issue credits and guarantees to customers was satisfied. The bank started issue of credits and guarantees from the second half of 2007.

The number of the Bank's staff was presented by 18 temporary and 6 outsourced workers at the year end 2009 against 14 temporary and 8 outsourced in 2008.

## **2 Operating Environment of the Bank**

Georgia continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of Georgia and restrictive currency controls. The tax, customs and currency legislation of Georgia has been subject of varying interpretations, and changes which can occur frequently.

There is a considerable degree of uncertainty in Georgia surrounding the continued success of domestic economic policy. The future economic direction of Georgia is largely dependent upon the effectiveness of economic financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

## **3 Basis of Preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank maintains its accounting records in accordance with Georgian banking and accounting regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS. These financial statements have been measured in the national currency of Georgia, Georgian Lari ("GEL"). The preparation of the financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

## **4 Significant Accounting Policies**

### ***Cash and cash equivalents***

Cash and cash equivalents are items, which can be converted into cash within a day. All short-term interbank placements are included in due from other banks.

### ***Mandatory cash balances with the NBG***

Mandatory cash balances with the NBG represent 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 cash flow statement.

### ***Discount securities***

Discount securities of the Bank comprise of the National Bank of Georgia deposit certificates having one month maturity. All certificates are acquired via multi-price auctions. Deposit certificates are recorded at nominal value, that is established by the National Bank of Georgia and that should be paid by the National Bank of Georgia at the maturity date. The term of the certificate is the period which is calculated as the calendar days difference between the dates of acquisition and maturity date.

The discount that is calculated as the difference between nominal value and settlement price and is recognised as income on discount securities in the income statement.



#### **4 Significant Accounting Policies (continued)**

##### **Loans and receivables**

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

##### **Impairment of financial assets carried at amortised cost**

The bank recognises impairment of the financial asset or group of financial assets at balance sheet date. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the 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 liquidity of related collateral, if any.

##### **Property and equipment**

All property and equipment are stated at historical cost less accumulated depreciation and correspondingly restated as explained below. Depreciation is calculated on the straight-line method to spread the cost of each asset to their residual values over their estimated useful life as follows:

|                              |               |
|------------------------------|---------------|
| Computers and communication- | 25% per annum |
| Vehicles                     | 20% per annum |
| Furniture and equipment-     | 17% per annum |
| Leasehold improvements-      | 25% per annum |
| Other                        | 25% per annum |

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

##### **Intangible assets**

Intangible assets mainly include computer software costs. Costs associated with maintaining computer software are recognised as an expense as incurred.

##### **Income and expense recognition**

Interest income and expense are recorded in the statement of income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided.

##### **Foreign currency translation**

Transactions denominated in foreign currency are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Georgian Lari at the official exchange rate of the NBG at the balance sheet date.

As at December 31, 2009 the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.6858; EUR 1 = GEL 2.4195; YTL 1 = GEL 1,1158(2008: USD 1 = GEL 1.667; EUR 1 = GEL 2.3648; YTL 1= GEL 1,1100). Exchange restrictions and controls exist relating to converting Georgian Lari into other currencies. At present, the Georgian Lari is not a freely convertible currency in most countries outside of Georgia.



#### 4 Significant Accounting Policies (continued)

##### Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

| <b>5 Cash and Cash Equivalents</b>                                 | <b>December 31,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|--|------------------------------|------------------------------|
| Cash on hand   | 1,706,289                    | 3,216,704                    |
| Cash balances with the NBG (other than mandatory reserve deposits) | 3,029,870                    | 7,581,952                    |
| Correspondent accounts   | 1,176,691                    | 2,527,767                    |
| <b>Total cash and cash equivalents</b>                             | <b>5,912,850</b>             | <b>13,326,423</b>            |

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 16.

#### 6 Loans to Customers

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

| <b>6.1 Portfolio structure by sectors</b> | <b>December 31,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|------------------------------|------------------------------|
| Individuals                               | 658,465                      | 833,275                      |
| Trade and service                         | 587,360                      | 473,167                      |
| Real estate and construction              | 69,308                       | 97,535                       |
| Other                                     | 67,190                       | 106,135                      |
| <b>Total loans</b>                        | <b>1,382,322</b>             | <b>1,510,112</b>             |
| Less allowance for impairment losses      | (402,212)                    | (72,599)                     |
| <b>Total loans, Net</b>                   | <b>980,110</b>               | <b>1,437,513</b>             |

Information about loan collateral as at December 31, 2009 is as follows:

| <b>6.2 Portfolio structure by collateral type</b> | <b>December 31,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|------------------------------|------------------------------|
| Loans collateralized by real estate               | 661,511                      | 450,786                      |
| Loans collateralized by inventories and equipment | 298,321                      | 171,882                      |
| Loans collateralized by third party guarantees    | 148,763                      | 385,789                      |
| Loans collateralized by private property          | 241,892                      | 472,462                      |
| Unsecured loans                                   | 31,834                       | 29,194                       |
| <b>Total loans</b>                                | <b>1,382,322</b>             | <b>1,510,112</b>             |
| Less allowance for impairment losses              | (402,212)                    | (72,599)                     |
| <b>Total loans, Net</b>                           | <b>980,110</b>               | <b>1,437,513</b>             |



**6 Loans to Customers (continued)**

| 6.3 Portfolio structure by maturity  | December 31,<br>2009 | December 31,<br>2008 |
|--------------------------------------|----------------------|----------------------|
| Short-term Loans                     | 432,598              | 767,158              |
| Long-term Loans                      | 678,095              | 699,267              |
| Overdue Loans                        | 271,629              | 43,687               |
| <b>Total loans</b>                   | <b>1,382,322</b>     | <b>1,510,112</b>     |
| Less allowance for impairment losses | (402,212)            | (72,599)             |
| <b>Total loans, Net</b>              | <b>980,110</b>       | <b>1,437,513</b>     |

**7 Property and Equipment**

|                                     | Computers and<br>communication | Vehicles      | Furniture<br>and<br>equipment | Leasehold<br>improvements | Other         | Total          |
|-------------------------------------|--------------------------------|---------------|-------------------------------|---------------------------|---------------|----------------|
| <b>Gross book value</b>             |                                |               |                               |                           |               |                |
| Balance at December 31, 2008        | 82,086                         | 66,820        | 195,421                       | 2,650                     | 11,138        | 358,116        |
| Additions                           | 10,295                         | -             | 4,172                         | -                         | -             | 14,467         |
| Disposals                           | -                              | -             | -                             | -                         | -             | -              |
| <b>Balance at December 31, 2009</b> | <b>82,086</b>                  | <b>66,820</b> | <b>195,421</b>                | <b>2,650</b>              | <b>11,138</b> | <b>372,582</b> |
| <b>Accumulated Depreciation</b>     |                                |               |                               |                           |               |                |
| Balance at December 31, 2008        | 64,966                         | 27,009        | 147,752                       | 2,650                     | 11,138        | 253,515        |
| Charge for the year                 | 9,531                          | 8,406         | 20,476                        | -                         | -             | 38,413         |
| Depreciation of disposals           | -                              | -             | -                             | -                         | -             | -              |
| <b>Balance at December 31, 2009</b> | <b>74,459</b>                  | <b>35,453</b> | <b>168,226</b>                | <b>11,138</b>             | <b>2,650</b>  | <b>291,926</b> |
| <b>Net Book Value</b>               |                                |               |                               |                           |               |                |
| Balance at December 31, 2008        | 82,086                         | 66,820        | 195,421                       | 2,650                     | 11,138        | 358,116        |
| <b>Balance at December 31, 2009</b> | <b>17,922</b>                  | <b>31,367</b> | <b>31,367</b>                 | <b>-</b>                  | <b>-</b>      | <b>80,656</b>  |

**8 Intangible assets**

|                                     | Gross book value | Accumulated<br>depreciation | Net book value |
|-------------------------------------|------------------|-----------------------------|----------------|
| Balance at December 31, 2008        | 112,205          | (57,258)                    | 54,947         |
| Additions                           | 104,594          | (9,827)                     | 94,764         |
| Disposals                           | -                | -                           | -              |
| <b>Balance at December 31, 2009</b> | <b>216,798</b>   | <b>(67,085)</b>             | <b>149,713</b> |

Intangible assets mainly consist of IT software licenses.



## 9 Deferred tax and Income tax expense

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

Deferred income tax assets and liabilities are attributable to the following items:

|  | December 31,<br>2009 | December 31,<br>2008 |
|--|----------------------|----------------------|
| <b>Deferred income tax asset</b>                 |                      |                      |
| Property, plant and equipment                    | 3,801                | 5,464                |
| Loans to customers                               | 17,531               | -                    |
| <b>Net deferred income tax asset (Liability)</b> | <b>21,331</b>        | <b>5,464</b>         |

The movement in the deferred tax during the year is presented in the table below:

|                               | Year2009      | Year2008     |
|-------------------------------|---------------|--------------|
| At the beginning of the year  | 5,464         | 8,958        |
| Movement for the year         | 15,867        | (3,494)      |
| <b>At the end of the year</b> | <b>21,331</b> | <b>5,464</b> |

Profit tax charge to the income statement for the year consists of current tax and change in deferred tax:

|  | Year2009      | Year2008       |
|--|---------------|----------------|
| Statutory tax expense                  | -             | 400,523        |
| Effect of deferred taxation            | 15,867        | 2,513          |
| <b>Income tax expense for the year</b> | <b>15,867</b> | <b>403,036</b> |

## 10 Other assets

|   | December 31,<br>2009 | December 31,<br>2008 |
|---|----------------------|----------------------|
| Accounts Receivable                             | 24,110               | 5,806                |
| Interest Receivable on Loans                    | 12,706               | 20,895               |
| Prepayments                                     | 57,685               | 48,295               |
|   | <b>94,501</b>        | <b>74,996</b>        |
| Less: Allowances for impairment of other assets | (1,019)              | (3,667)              |
| <b>Total other assets</b>                       | <b>93,482</b>        | <b>71,329</b>        |

## 11 Due to customers

|                               | December 31,<br>2009 | December 31,<br>2008 |
|-------------------------------|----------------------|----------------------|
| <b>Legal entities</b>         |                      |                      |
| - Current/settlement accounts | 2,752,546            | 3,098,569            |
| <b>Individuals</b>            |                      |                      |
| - Current/demand accounts     | 2,986,035            | 2,497,799            |
| <b>Total due to customer</b>  | <b>5,738,581</b>     | <b>5,596,368</b>     |



### 11 Due to customers (continued)

Economic sector concentrations within customer accounts are, as follows:

|                                | Year 2009        |                | Year 2008        |                |
|--------------------------------|------------------|----------------|------------------|----------------|
|                                | Amount           | %              | Amount           | %              |
| Individuals                    | 2,986,035        | 52.03%         | 2,497,799        | 44.63%         |
| Government bodies              | 663,219          | 11.56%         | 519,311          | 9.28%          |
| Trade                          | 1,593,461        | 27.77%         | 1,996,356        | 35.67%         |
| Mining                         | 213,912          | 3.73%          | 236,600          | 4.23%          |
| Construction                   | 167,641          | 2.92%          | 278,803          | 4.98%          |
| Other                          | 114,313          | 1.99%          | 67,499           | 1.21%          |
| <b>Total customer accounts</b> | <b>5,738,581</b> | <b>100.00%</b> | <b>5,596,368</b> | <b>100.00%</b> |

Geographical, currency and maturity analyses of customer accounts are disclosed in Note 16. The information on related party balances is disclosed in Note 18.

### 12 Reserve fund

According to local regulations (Order # 144 of the president of National Bank of Georgia, May 23, 2006) the minimum amount of the reserved capital of licensed commercial and foreign bank branches in Georgia as at December 31, 2009 should be no less than GEL 12,000,000. The amount of Bank's capital as at December 31, 2009 conforms to the set norms.

### 13 Impairment of interest earning assets

The allowance for impairment of interest earning assets is created against the gross loan portfolio, according to local regulations (Order # 350 of the president of National Bank of Georgia) and is calculated as 2 % of gross loan portfolio amount plus bad debt expenses (10% - if overdue is more than 30 days, 30% - if more than 60 days and 50% after 120 days.) and IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses.

Drastic increase was seen in loan loss reserves from 5% percent of total loan portfolio in previous year to 29% this year.

|                        | Year 2009        | Year 2008       |
|------------------------|------------------|-----------------|
| <b>Opening balance</b> | <b>(72,599)</b>  | <b>(14,418)</b> |
| Increase in the period | (329,613)        | (58,206)        |
| <b>Closing balance</b> | <b>(402,212)</b> | <b>(72,599)</b> |

### 14 Fee and Commission Income and Expense

|   | Year 2009       | Year 2008       |
|---|-----------------|-----------------|
| <b>Fee and commission income</b>        |                 |                 |
| Commission on cash operations           | 205,214         | 284,351         |
| Commission on settlement transactions   | 313,364         | 365,032         |
| Other                                   | 27,364          | 34,027          |
| <b>Total fee and commission income</b>  | <b>545,942</b>  | <b>683,410</b>  |
| <b>Fee and commission expense</b>       |                 |                 |
| Commission on settlement transactions   | (1,568)         | (1,350)         |
| Commission on cash transactions         | (25,223)        | (9,219)         |
| Other                                   | (454)           | (2,233)         |
| <b>Total fee and commission expense</b> | <b>(27,245)</b> | <b>(12,802)</b> |
| <b>Net fee and commission income</b>    | <b>518,697</b>  | <b>670,608</b>  |



## 15 Operating Expenses

|   | Year2009         | Year2008       |
|---|------------------|----------------|
| Staff costs   | 668,815          | 534,621        |
| Rent  | 180,283          | 95,422         |
| Depreciation of property, plant and equipment         | 38,413           | 43,869         |
| Amortization of intangible assets                     | 9,827            | 10,354         |
| Legal and other professional services                 | 58,529           | 55,256         |
| Insurance   | 12,238           | 11,099         |
| Communication and mailing                             | 100,604          | 66,908         |
| Security  | 62,460           | 53,917         |
| Representative expenses                               | 8,108            | 12,677         |
| Utilities   | 13,603           | 9,052          |
| Office supply   | 7,171            | 7,621          |
| Other local taxes                                     | 10,669           | 5,655          |
| Impairment / (Recovery of impairment) of other assets | (2,648)          | (46,634)       |
| Other   | 389,681          | 64,587         |
| <b>Total operating expenses</b>                       | <b>1,557,753</b> | <b>924,404</b> |

## 16 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (market, geographical, currency and liquidity), operational risks and legal risks. 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. Risk assessment also forms the basis for optimal risk-adjusted capital allocation, transaction pricing and performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

**Geographical risk** - The geographical concentration of the Bank's assets and liabilities as at December 31, 2009 is set out below:

|                                      | Georgia           | OECD             | Total             |
|--------------------------------------|-------------------|------------------|-------------------|
| <b>Assets</b>                        |                   |                  |                   |
| Cash and cash equivalents            | 4,736,159         | 1,176,691        | 5,912,850         |
| Mandatory cash balances with the NBG | 254,542           | -                | 254,542           |
| Discount securities                  | 13,840,736        | -                | 13,840,736        |
| Loans to customers                   | 980,110           | -                | 980,110           |
| Prepaid taxes                        | 668,854           | -                | 668,854           |
| Property, plant and equipment, net   | 80,656            | -                | 80,656            |
| Intangible assets, net               | 149,713           | -                | 149,713           |
| Deferred tax asset                   | 21,331            | -                | 21,331            |
| Other assets                         | 93,482            | -                | 93,482            |
| <b>Total assets</b>                  | <b>20,825,583</b> | <b>1,176,691</b> | <b>22,002,274</b> |
| <b>Liabilities</b>                   |                   |                  |                   |
| Due to other banks                   | 206               | -                | 206               |
| Customer accounts                    | 5,738,581         | -                | 5,738,581         |
| Other liabilities                    | 360,018           | -                | 360,018           |
| <b>Total liabilities</b>             | <b>6,098,805</b>  | <b>-</b>         | <b>6,098,805</b>  |
| <b>Net balance sheet position</b>    | <b>14,726,778</b> | <b>1,176,691</b> | <b>15,903,469</b> |

Assets and liabilities have generally been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

**Currency risk** - The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at December 31, 2009. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.



**16 Financial Risk Management (continued)**

|                                      | GEL               | USD                | Euro           | Other<br>currencies | Total             |
|--------------------------------------|-------------------|--------------------|----------------|---------------------|-------------------|
| <b>Assets</b>                        |                   |                    |                |                     |                   |
| Cash and cash equivalents            | 3,085,961         | 2,231,775          | 579,144        | 15,970              | 5,912,850         |
| Mandatory cash balances with the NBG | -                 | 231,835            | 22,707         | -                   | 254,542           |
| Discount securities                  | 13,840,736        | -                  | -              | -                   | 13,840,736        |
| Loans to customers                   | 30,114            | 949,996            | -              | -                   | 980,110           |
| Prepaid taxes                        | 668,854           | -                  | -              | -                   | 668,854           |
| Property, plant and equipment, net   | 80,656            | -                  | -              | -                   | 80,656            |
| Intangible assets, net               | 149,713           | -                  | -              | -                   | 149,713           |
| Deferred tax asset                   | 21,331            | -                  | -              | -                   | 21,331            |
| Other assets                         | 93,482            | -                  | -              | -                   | 93,482            |
| <b>Total assets</b>                  | <b>17,970,847</b> | <b>3,413,606</b>   | <b>601,851</b> | <b>15,970</b>       | <b>22,002,274</b> |
| <b>Liabilities</b>                   |                   |                    |                |                     |                   |
| Due to other banks                   | 206               | -                  | -              | -                   | 206               |
| Customer accounts                    | 1,115,620         | 4,193,778          | 429,183        | -                   | 5,738,581         |
| Other liabilities                    | -                 | 360,018            | -              | -                   | 360,018           |
| <b>Total liabilities</b>             | <b>1,115,826</b>  | <b>4,553,796</b>   | <b>429,183</b> | <b>-</b>            | <b>6,098,805</b>  |
| <b>Net balance sheet position</b>    | <b>16,855,022</b> | <b>(1,140,190)</b> | <b>172,668</b> | <b>15,970</b>       | <b>15,903,469</b> |

The tables below indicate the currencies to which the Bank had significant exposure at December 31, 2009 and 2008. The analysis calculates the effect of a reasonably possible movement of the currency rate against the GEL, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. The base currency is assumed to be the Gel. All amounts are presented in GEL.

| Currency | Change in<br>foreign currency<br>exchange rate | 31/12/2009                        |                      | 31/12/2008                        |                      |
|----------|--|-----------------------------------|----------------------|-----------------------------------|----------------------|
|          |  | Impact on<br>profit before<br>tax | Impact on<br>equity* | Impact on<br>profit before<br>tax | Impact on<br>equity* |
|          |  | GEL                               | GEL                  | GEL                               | GEL                  |
| USD      | -10%   | 114,019                           | 96,916               | (109,971)                         | (93,475)             |
|          | -5%  | 57,009                            | 48,458               | (54,985)                          | (46,738)             |
|          | 5%   | (57,009)                          | (48,458)             | 54,985                            | 46,738               |
|          | 10%  | (114,019)                         | (96,916)             | 109,971                           | 93,475               |
| EURO     | -10%   | (17,267)                          | (14,677)             | (173)                             | (147)                |
|          | -5%  | (8,633)                           | (7,338)              | (87)                              | (74)                 |
|          | 5%   | 8,633                             | 7,338                | 87                                | 74                   |
|          | 10%  | 17,267                            | 14,677               | 173                               | 147                  |

\* - Impact on equity reflects adjustments for tax, when applicable



**16 Financial Risk Management (continued)**

**Liquidity risk** - Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from current accounts. 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. The table below shows assets and liabilities as at December 31, 2008 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. The liquidity position of the Bank as at December 31, 2009 is set out below.

|   | <b>Less than<br/>1 month</b> | <b>From 1 to<br/>6 months</b> | <b>From 6 to<br/>12 months</b> | <b>More than<br/>1 year</b> | <b>Total</b>      |
|---|------------------------------|-------------------------------|--------------------------------|-----------------------------|-------------------|
| <b>Assets</b>   |                              |                               |                                |                             |                   |
| Cash and cash equivalents                                   | 5,912,850                    | -                             | -                              | -                           | 5,912,850         |
| Mandatory cash balances with the NBG                        | 254,542                      | -                             | -                              | -                           | 254,542           |
| Due from other banks  | -                            | -                             | -                              | -                           | -                 |
| Discount securities   | 13,840,736                   | -                             | -                              | -                           | 13,840,736        |
| Loans to customers  | 127,251                      | 262,344                       | 295,594                        | 294,921                     | 980,110           |
| Prepaid taxes   | -                            | -                             | 668,854                        | -                           | 668,854           |
| Property, plant and equipment, net                          | -                            | -                             | -                              | 80,656                      | 80,656            |
| Intangible assets, net                                      | -                            | -                             | -                              | 149,713                     | 149,713           |
| Deferred tax asset  | -                            | -                             | -                              | 21,331                      | 21,331            |
| Other assets  | 93,482                       | -                             | -                              | -                           | 93,482            |
| <b>Total assets</b>   | <b>20,228,861</b>            | <b>262,344</b>                | <b>964,448</b>                 | <b>546,621</b>              | <b>22,002,274</b> |
| <b>Liabilities</b>  |                              |                               |                                |                             |                   |
| Due to other banks  | 206                          | -                             | -                              | -                           | 206               |
| Customer accounts   | 1,793,914                    | 3,521,184                     | 423,483                        | -                           | 5,738,581         |
| Other liabilities   | 360,018                      | -                             | -                              | -                           | 360,018           |
| <b>Total liabilities</b>                                    | <b>2,154,138</b>             | <b>3,521,184</b>              | <b>423,483</b>                 | <b>-</b>                    | <b>6,098,805</b>  |
| <b>Net liquidity gap</b>                                    | <b>18,074,723</b>            | <b>(3,258,840)</b>            | <b>540,965</b>                 | <b>546,621</b>              | <b>15,903,469</b> |
| <b>Cumulative liquidity gap at as<br/>December 31, 2009</b> | <b>18,074,723</b>            | <b>14,815,883</b>             | <b>15,356,848</b>              | <b>15,903,469</b>           |                   |

Overdue liabilities, if any, are classified within the "demand and less than 1 month" column. Overdue assets, if any, are allocated based on their expected maturity. Mandatory cash balances with the NBG are included within demand and less than one month as the majority of liabilities to which this balance relates to are also included within this category.

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.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers' accounts provide a long-term and stable source of funding for the Bank.

**17 Contingencies and Commitments**

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 Group may be challenged by the relevant regional and federal 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 years preceding the year of review. Under certain circumstances reviews may cover longer periods of 6 years. Though there should be taken into account Georgian Legislation on the issue of Financial Amnesty by the period of January 1, 2004.

As at December 31, 2009 management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.



## 18 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The outstanding balances at the year-end with related parties are as follows:

|  | <u>Year2009</u> | <u>Year2008</u> |
|--|-----------------|-----------------|
| Current/settlement accounts in Ziraat Bank's foreign branches as at the year end | 1,176,691       | 2,527,756       |

In 2009 the total remuneration of Bank management, including pension contributions, and discretionary compensation amounts to GEL 255 278 (2008: GEL165,841).

## 19 Legal Proceeding

As of December 31, 2009, the Bank was not engaged in any litigation proceedings.

## 20 Events after balance sheet date

There have been no after balance sheet events that require any additional adjustments or disclosures in these financial statements.

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