International Bank of Azerbaijan - Georgia

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

31 December 2009

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Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of International Bank of Azerbaijan - Georgia:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

11 May 2010
Tbilisi, Georgia

In Georgian Lari	Note	31 December 2009	31 December 2008
ASSETS			
Cash and cash equivalents	7	50,663,520	4,663,288
Mandatory cash balances with the NBG		516,736	718,019
Loans and advances to customers	8	17,532,741	24,762,328
Investment securities available for sale	9	54,000	54,000
Premises, equipment and intangible assets	10	7,659,570	7,703,207
Other financial assets	11	24,394	36,159
Other assets	12	16,874	211,854
TOTAL ASSETS		**76,467,835**	**38,148,855**
LIABILITIES			
Due to other banks	13	6,611,719	10,010,161
Customer accounts	14	51,977,623	9,503,199
Other financial liabilities	15	133,608	188,641
Other liabilities	16	327	45,464
Subordinated debt	17	8,429,000	8,335,000
TOTAL LIABILITIES		**67,152,277**	**28,082,465**
EQUITY			
Share capital	18	12,000,000	12,000,000
Accumulated deficit		(2,684,442)	(1,933,610)
TOTAL EQUITY		**9,315,558**	**10,066,390**
TOTAL LIABILITIES AND EQUITY		**76,467,835**	**38,148,855**

Approved for issue and signed on behalf of the Board of Directors on 11 May 2010.

_____________________________	_____________________________
Samir Veliyev General Director	Neli Tsiklauri Chief Accountant

In Georgian Lari	Note	2009	2008
Interest income	19	2,528,306	3,404,018
Interest expense	19	(1,261,779)	(730,521)
Net interest income		**1,266,527**	**2,673,497**
Provision for loan impairment	8	(1,536,228)	(2,982,672)
Net interest income after provision for loan impairment		**(269,701)**	**(309,175)**
Fee and commission income	20	1,088,626	641,068
Fee and commission expense	20	(177,827)	(199,463)
Gains less losses from trading in foreign currencies		857,710	1,223,039
Foreign exchange translation losses less gains		(6,631)	(890,216)
Impairment of property	10	(231,064)	(391,726)
Administrative and other operating expenses	21	(2,011,945)	(1,547,607)
Loss before tax		**(750,832)**	**(1,474,080)**
Income tax expense	22	-	(30,159)
Total comprehensive loss for the year		**(750,832)**	**(1,504,239)**

In Georgian Lari	**Share capital**	**Accumulated deficit**	**Total equity**
Balance at 1 January 2008	**12,000,000**	**(429,371)**	**11,570,629**
Total comprehensive loss for the year	-	(1,504,239)	(1,504,239)
Balance at 31 December 2008	**12,000,000**	**(1,933,610)**	**10,066,390**
Total comprehensive loss for the year	**-**	(750,832)	(750,832)
Balance at 31 December 2009	**12,000,000**	**(2,684,442)**	**9,315,558**

In Georgian Lari	Note	2009	2008
Cash used in operating activities			
Interest received		2,673,039	2,541,151
Interest paid		(1,229,406)	(727,662)
Fees and commissions received	20	1,088,626	618,116
Fees and commissions paid	20	(177,827)	(199,463)
Income received from trading in foreign currencies		857,710	1,223,039
Administrative and other operating expenses paid		(1,804,946)	(1,446,220)
Penalties paid		-	(55,536)
Income tax paid		-	(22,392)
Cash provided from operating activities before changes in operating assets and liabilities		**1,407,196**	**1,931,033**
Changes in operating assets and liabilities			
Net decrease in mandatory cash balances with the National Bank of Georgia		201,283	102,372
Net decrease / (increase) in loans and advances to customers		5,693,359	(18,252,657)
Net decrease in other financial assets		36,159	269,915
Net increase in other assets		(10,677)	(5,300)
Net (decrease) / increase in due to other banks		(3,398,442)	10,007,293
Net increase / (decrease) in customer accounts		42,474,424	(34,708,235)
Net (decrease) / increase in other financial liabilities		(55,033)	65,156
Net (decrease) / increase in other liabilities		(45,137)	6,316
Net cash provided from / (used in) operating activities		**46,303,132**	**(42,515,140)**
Cash flows from investing activities			
Acquisition of property and equipment	10	(143,878)	(908,506)
Acquisition of investment securities available for sale	9	-	(54,000)
Acquisition of intangible assets	10	(44,890)	(49,550)
Net cash used in investing activities		**(188,768)**	**(1,012,056)**
Cash flows from financing activities			
Proceeds from subordinated debt	15	-	1,418,000
Net cash provided from financing activities		-	**1,418,000**
Effect of exchange rate changes on cash and cash equivalents		**(114,132)**	**(102,869)**
Net increase / (decrease) in cash and cash equivalents		**46,000,232**	**(40,281,032)**
Cash and cash equivalents at the beginning of the year	7	4,663,288	44,944,320
Cash and cash equivalents at the end of the year	7	**50,663,520**	**4,663,288**

1. Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 for the International Bank of Azerbaijan - Georgia (the "Bank").

The Bank was incorporated and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations.

The Bank's immediate parent is the International Bank of Azerbaijan (registered in the Republic of Azerbaijan) that holds 75% of the Bank's ordinary shares as at 31 December 2009 (2008: 75%). The Bank is ultimately controlled by the Government of the Republic of Azerbaijan.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Georgia. The Bank has operated under a full banking licence issued by the National Bank of Georgia ("NBG") since February 2007.

As at 31 December 2009, the Bank had no branches (31 December 2008: no branches).

Registered address and place of business. The Bank's registered address is: 1 Leonidze street, Tbilisi, 0105, Georgia

Presentation currency. These financial statements are presented in Georgian Lari ("GEL"). The Georgian Lari ("GEL") is the official currency of Georgia.

The Board of Directors who approved these financial statements has the power to amend the financial statements after issue.

2. Operating Environment of the Bank

The year 2009 was another challenging year for Georgia, as the armed conflict in August 2008 and the global financial crisis had a significant impact on the country. In the first half of the year the volatile political situation, lower investment, both foreign and domestic, and very limited bank lending resulted in a slow-down of economic activity in the country. The government was able to keep the economy afloat by utilizing initial donor funds primarily in infrastructure projects and social programs.

In the second half of the year the political situation showed signs of stability and the economy showed tentative signs of recovery, but the external environment remains weak in terms of export market growth, and uncertainty in the recovery of private capital inflows. Furthermore, domestic credit conditions were still very tight, although interest rates have started coming down.

There was economic downturn in 2009 with 4% decrease in GDP. This downturn would have been even greater without the USD 4.5 billion pledged by international donors. The annual inflation rate has been kept relatively low at 3%, compared to 5.5% in 2008 and 11% in 2007. Moreover, in September 2009 Fitch Ratings affirmed Georgia's long-term foreign and local currency Issuer Default Ratings at 'B+', and the Country Ceiling was upgraded from 'B+' to 'BB-' with stable outlook – the rating that Georgia had prior to armed conflict in August 2008.

The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. Internal and regional political stability is necessary for the successful development of the economy and it is vital to continuously improve the local investment climate and put Georgia back onto the map for investors.

Borrowers of the Bank were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

2. Operating Environment of the Bank (Continued)

The market in Georgia for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment. The amount of provision for impaired loans is based on the Bank's management appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. To the extent that information is available, the Bank's management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

The Bank's management is unable to reliably determine the effects on the Bank's future financial position of any further potential deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. The Bank's management believes it is taking all the necessary measures to support the sustainability and growth 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. The principal accounting policies applied in the preparation of these financial statements are set out below.

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 arms 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*. *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 both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

3. Summary of Significant Accounting Policies (Continued)

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 re-pricing 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 (refer to income and expense recognition policy).

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for 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. All short-term inter-bank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances in foreign currency held with the NBG. Mandatory cash balances in GEL and foreign currency held with the 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 cash flow statement.

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.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. 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 whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

3. Summary of Significant Accounting Policies (Continued)

- 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 borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is 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.

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.

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.

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.

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.

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 additional restrictions on the sale.

Available-for-sale assets are those intended to be held for an indefinite amount of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

3. Summary of Significant Accounting Policies (Continued)

Construction in progress is carried at cost less provision for impairment where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior periods 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.

Depreciation. Land is 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 as follows:

Buildings	5%;
Office and computer equipment	25%;
Furniture, fixtures and other equipment	25%;
Motor vehicles	25%; and
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 residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Intangible assets. All of the Bank's intangible assets 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 to use the specific software. The 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 four to five years.

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

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

Subordinated debt. Subordinated debt includes long-term non-derivative liabilities to financial institutions and is carried at amortised cost. The repayment of subordinated debt ranks after all other liabilities in the event of the Bank's liquidation and is included in "tier 2 capital" of the Bank.

3. Summary of Significant Accounting Policies (Continued)

Income taxes. Income taxes have been provided for in the financial statements in accordance with Georgia legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax movements and is recognised in the income statement, except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, 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 balance sheet date, 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 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 every balance sheet date. 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 balance sheet date 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 balance sheet date.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Income and expense recognition. Interest income and expense are recorded in the income statement 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 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.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

3. Summary of Significant Accounting Policies (Continued)

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Foreign currency translation. The Bank's functional and presentation currency is the national currency of Georgia, the Georgian Lari ("GEL").

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

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

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

Staff costs. Salaries and paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period, in which the associated services are rendered by the employees of the Bank.

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

Management of the Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities of the Bank within the next financial period. 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 period include:

Impairment losses on loans and advances. Management of the Bank regularly reviews the Bank's loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, Management 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 Bank. 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 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 225,916 (2007: GEL 149,134), respectively.

Going concern. For the year ended 31 December 2009, the Bank continued to report net loss of GEL 750,832 (2008: loss of GEL 1,504,239). However, as set out in Note 23, as at 31 December 2009, the Bank managed to turn its cumulative liquidity gap in the period up to 12 months to positive of GEL 3,132,283 as compared to negative GEL 3,970,207 as at 31 December 2008. The management of the Bank is currently assessing its budget for 2010 and forecasts the Bank will be loss making in 2010 as well.

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

While global events have had a significant impact on the ability to obtain new or extended term borrowings from other financial institutions, and where available, the cost of funding has typically increased, management are actively managing this position and believe that the Bank will have access to sufficient resources from its Parent Bank in order to continue to meet all of its current liabilities as they fall due.

As of report issuance date, the Bank has obtained a support letter from its Parent Bank indicating its ability and intention to continue financial support within the next twelve months period. Accordingly, management prepared these financial statements on a going concern basis.

Initial recognition of related party transactions. In the normal course of business, the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

5. Adoption of New or Revised Standards and Interpretations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. New Accounting Pronouncements

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

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

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

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

6. New Accounting Pronouncements (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 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Bank does not expect the amended standard to have a material effect on its financial statements.

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

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 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 is not expected to have any impact on the Bank’s financial statements as the Bank does not apply hedge accounting.

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

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

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

6. New Accounting Pronouncements (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 recognized asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Bank does not expect the amendments to have any material effect on its financial statements.

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

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

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

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

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

7. Cash and Cash Equivalents

In Georgian Lari	2009	2008
Cash on hand	220,382	224,899
Cash balances with the NBG (other than mandatory reserve deposits)	522,424	343,111
Correspondent accounts and overnight placements with other banks		
- Georgia	1,153,209	2,002,678
- The Parent Bank, the Republic of Azerbaijan	47,677,008	1,005,770
- Other than the Parent Bank, the Republic of Azerbaijan	1,054,670	1,042,909
- Other countries	35,827	43,921
Total cash and cash equivalents	**50,663,520**	**4,663,288**

Correspondent account in the Parent Bank amounted to GEL 47,677,008 had interest rates of 2% per annum as at 31 December 2009 (2008: GEL 1,005,770 at 2% pa).

The analysis by credit quality of the cash and cash equivalents at 31 December 2009 is, as follows:

In Georgian Lari	Cash on hand	Cash balances with the NBG	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	220,382	-	-	220,382
- Government of Georgia (credit rating of “B+”)	-	522,424		522,424
- Top 10 Georgian banks	-	-	1,153,209	1,153,209
- The Republic of Azerbaijan (credit rating of “Ba1”)	-	-	48,731,678	48,731,678
- Other countries	-	-	35,827	35,827
Total cash and cash equivalents	**220,382**	**522,424**	**49,920,714**	**50,663,520**

The analysis by credit quality of the cash and cash equivalents at 31 December 2008 is as follows:

In Georgian Lari	Cash on hand	Cash balances with the NBG	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	224,899	-	-	224,899
- Government of Georgia (credit rating of “B+”)	-	343,111	-	343,111
- Top 10 Georgian banks	-	-	2,002,678	2,002,678
- The Republic of Azerbaijan (credit rating of “Ba1”)	-	-	2,048,679	2,048,679
- Other countries	-	-	43,921	43,921
Total cash and cash equivalents	**224,899**	**343,111**	**4,095,278**	**4,663,288**

The published international rating for the Republic of Azerbaijan is Ba1/Stable (Moody’s - issued on 7 January 2009), for the Russian Federation is BA3/Stable (Moody’s - issued on 21 April 2009) and for Georgia is BB-/Stable (Fitch Ratings - issued on 26 August 2009) as at 31 December 2009.

A significant increase in cash and cash equivalent balances as at 31 December 2009 in comparison with 31 December 2008 is mainly due to a net increase of GEL 34,064,907 and GEL 13,560,579 in the balances of current accounts held by a local of construction company and other company. Refer to Note 14 for details.

Interest rate and maturity analysis of cash and cash equivalents is disclosed in Note 23. The information on related party balances is disclosed in Note 28.

8. Loans and Advances to Customers

Maximum credit exposures by classes of customer loans are as follows:

In Georgian Lari	2009	2008
Corporate loans	15,804,818	21,285,716
Loans to individuals – mortgage loans	2,709,247	2,948,011
Loans to individuals – consumer loans	1,457,393	1,914,775
Loans to individuals – entrepreneurs	1,761,604	1,324,011
Loans to individuals – purchase of motor vehicles	318,579	272,487
Less: Provision for loan impairment	(4,518,900)	(2,982,672)
Total loans and advances to customers	**17,532,741**	**24,762,328**

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

In Georgian Lari	Corporate loans	Loans to individuals – mortgage loans	Loans to individuals – consumer loans	Loans to individuals – entrepreneurs	Loans to individuals – purchase of motor vehicles	Total
Provision for loan impairment at 1 January 2009	1,476,514	1,010,956	26,984	326,641	141,577	2,982,672
Provision for impairment during the year	1,321,188	(99,707)	155,599	223,901	(64,753)	1,536,228
Provision for loan impairment at 31 December 2009	**2,797,702**	**911,249**	**182,583**	**550,542**	**76,824**	**4,518,900**

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

In Georgian Lari	Corporate loans	Loans to individuals – mortgage loans	Loans to individuals – consumer loans	Loans to individuals – entrepreneurs	Loans to individuals – purchase of motor vehicles	Total
Provision for loan impairment at 1 January 2008	-	-	-	-	-	-
Provision for impairment during the year	1,476,514	1,010,956	26,984	326,641	141,577	2,982,672
Provision for loan impairment at 31 December 2008	**1,476,514**	**1,010,956**	**26,984**	**326,641**	**141,577**	**2,982,672**

Economic sector risk concentrations within the customer loan portfolio as at 31 December 2009 is, as follows:

	2009		2008	
In Georgian Lari	Amount	%	Amount	%
Individuals	6,246,823	28	7,901,000	28
Trade and service	5,960,544	27	8,090,000	29
Construction	6,656,171	30	6,225,000	23
Manufacturing	2,372,589	11	2,754,000	10
Oil and gas sector	766,605	4	2,555,000	9
Other	48,909	-	220,000	1
Total loans and advances to customers (before impairment)	**22,051,641**	**100**	**27,745,000**	**100**

8. Loans and Advances to Customers (Continued)

As at 31 December 2009, the Bank had 27 borrowers (2008: 36 borrowers), each with an outstanding loan amount above GEL 100,000. The total aggregate amount of these loans was GEL 20,249,625 (2008: GEL 25,937,664) or 94.81% of the gross loan portfolio (2008: 93%).

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

In Georgian Lari	Corporate loans	Loans to individuals – mortgage loans	Loans to individuals – consumer loans	Loans to individuals – entrepreneurs	Loans to individuals – purchase of motor vehicles	Total
Unsecured loans	6,114,844	54,242	1,247,721	-	120,284	7,537,091
Loans collateralised by:						
- residential real estate	1,306,634	1,394,960	-	1,643,946	-	4,345,540
- other real estate		1,260,045	-	117,658	-	2,263,131
- other assets		-	209,672	-	198,295	7,905,879
Total loans and advances to customers	**15,804,818**	**2,709,247**	**1,457,393**	**1,761,604**	**318,579**	**22,051,641**

Information about collateral at 31 December 2008 is, as follows:

In Georgian Lari	Corporate loans	Loans to individuals - mortgage loans	Loans to individuals – consumer loans	Loans to individuals – entrepreneurs	Loans to individuals – purchase of motor vehicles	Total
Unsecured loans	4,943,891	-	1,582,720	-	-	6,526,611
Loans collateralised by:						
- residential real estate	-	2,948,011	18,075	1,324,011	-	4,290,097
- other real estate	12,060,776	-	-	-	-	12,060,776
- other assets	4,281,049	-	313,980	-	272,487	4,867,516
Total loans and advances to customers	**21,285,716**	**2,948,011**	**1,914,775**	**1,324,011**	**272,487**	**27,745,000**

8. Loans and Advances to Customers (Continued)

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

In Georgian Lari	Corporate loans	Loans to individuals- mortgage loans	Loans to individuals – consumer loans	Loans to individuals – entrepreneurs	Loans to individuals – purchase of motor vehicles	Total
Current and not impaired						
Large borrowers:						
- Borrowers with more than two years experience	4,515,066	-	-	-	-	4,515,066
- New borrowers	3,244,845	-	-	-	-	3,244,845
- Renegotiated in 2009	1,109,222	-	-	-	-	1,109,222
Loans to small entities and individuals	861,167	948,812	111,919	1,066,604	10,425	2,998,927
Total current and not impaired	**9,730,300**	**948,812**	**111,919**	**1,066,604**	**10,425**	**11,868,060**
Past due but not impaired						
- 30 to 90 days overdue	2,383,468	-	670,205	-	231,330	3,285,003
Total past due but not impaired	**2,383,468**	**-**	**670,205**	**-**	**231,330**	**3,285,003**
Loans individually determined to be impaired						
- 30 to 90 days overdue	3,691,050	1,760,435	675,269	695,000	76,824	6,898,578
Total individually impaired loans (gross)	**3,691,050**	**1,760,435**	**675,269**	**695,000**	**76,824**	**6,898,578**
Less impairment provisions	**(2,797,702)**	**(911,249)**	**(182,583)**	**(550,542)**	**(76,824)**	**(4,518,900)**
Total loans and advances to customers	**13,007,116**	**1,797,998**	**1,274,810**	**1,211,062**	**241,755**	**17,532,741**

8. Loans and Advances to Customers (Continued)

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

In Georgian Lari	Corporate loans	Loans to individuals- mortgage loans	Loans to individuals – consumer loans	Loans to individuals – entrepreneurs	Loans to individuals – purchase of motor vehicles	Total
Current and not impaired						
Large borrowers						
- New borrowers: less two years experience	9,957,450	-	-	-	-	9,957,450
– Renegotiated in 2008	1,606,007	-	-	-	-	1,606,007
Loans to individuals	-	440,261	1,851,811	-	-	2,292,072
Total current and not impaired	**11,563,457**	**440,261**	**1,851,811**	**-**	**-**	**13,855,529**
Past due but not impaired						
- 30 to 90 days overdue	2,454,193	673,140	3,898	-	-	3,131,231
Total past due but not impaired	**2,454,193**	**673,140**	**3,898**	**-**	**-**	**3,131,231**
Loans individually determined to be impaired						
- less than 30 days overdue	7,052,360	515,052	55,901	1,324,011	191,252	9,138,576
- 30 to 90 days overdue	215,706	1,319,559	3,164	-	81,235	1,619,664
Total individually impaired loans (gross)	**7,268,066**	**1,834,611**	**59,065**	**1,324,011**	**272,487**	**10,758,240**
Less impairment provisions	**(1,476,514)**	**(1,010,956)**	**(26,984)**	**(326,641)**	**(141,577)**	**(2,982,672)**
Total loans and advances to customers	**19,809,202**	**1,937,056**	**1,887,790**	**997,370**	**130,910**	**24,762,328**

At 31 December 2009, interest accrual on impaired loans was GEL 81,223 (2008: GEL 25,090).

The primary factors that the Bank considers whether a loan is impaired is 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.

Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

8. Loans and Advances to Customers (Continued)

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

In Georgian Lari	Corporate loans	Loans to individuals-mortgage loans	Loans to individuals – consumer loans	Loans to individuals – entrepreneurs	Loans to individuals– purchase of motor vehicles	Total
Fair value of collateral – loans past due but not impaired						
- real estate	3,320,520	-	593,402	-	-	3,913,922
- other real estate	-	-	70,500	-	318,579	389,079
Fair value of collateral – individually impaired loans						
- real estate	781,031	993,611	510,325	165,680	-	2,450,647
Total	**4,101,551**	**993,611**	**1,174,227**	**165,680**	**318,579**	**6,753,648**

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

In Georgian Lari	Corporate loans	Loans to individuals-mortgage loans	Loans to individuals – consumer loans	Loans to individuals – entrepreneurs	Loans to individuals– purchase of motor vehicles	Total
Fair value of collateral – loans past due but not impaired						
- real estate	2,454,193	-	-	-	-	2,454,193
- other real estate	-	578,000	-	-	-	578,000
Fair value of collateral – individually impaired loans						
- real estate	1,745,706	1,487,610	7,765	-	-	3,241,081
- other real estate	3,053,762	-	-	1,324,011	179,750	4,557,523
Total	**7,253,661**	**2,065,610**	**7,765**	**1,324,011**	**179,750**	**10,830,797**

The carrying value of each class of loans and advances to customers approximates their fair value at 31 December 2009. Refer to Note 26.

The interest rate and maturity analysis of loans and advances to customers is disclosed in Note 23. The information on related party balances is disclosed in Note 28.

9. Investment Securities Available for Sale

At 31 December 2009, investment security available for sale was:

Name	Nature of business	Country of registration	Cost 2009	Cost 2008
JSC United Clearing Centre	Card Processing	Georgia	54,000	54,000

The Bank together with nine other Georgian banks established Card Processing Centre ("the Company") in October 2008. Each of them owns 10% of the Company as at 31 December 2009.

The investee has not published recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible. The Bank's management could not reliably estimate the fair value of these equity investment securities. The Bank does not intend to dispose of these shares in the foreseeable future. Management could not reliably estimate the fair value of the Bank's investment in these shares. The investments are carried at cost of GEL 54,000.

10. Premises, Equipment and Intangible Assets

In Georgian Lari	Note	Leasehold improve-ments	Land and buildings	Office and computer equipment	Furniture, fixtures and other	Construction in progress	Total premises and equipment	Intangible assets	Total
Carrying amount at 1 January 2008		**3,333**	**6,851,676**	**78,204**	**107,603**	**265,170**	**7,305,986**	**64,727**	**7,370,713**
Additions		36,541	-	340,939	20,323	371,678	769,481	49,549	819,030
Depreciation and amortisation charge	21	(2,546)	-	(45,755)	(33,562)	-	(81,863)	(12,947)	(94,810)
Impairment charge through profit and loss		-	(391,726)	-	-	-	(391,726)	-	(391,726)
Carrying amount at 31 December 2008		**37,328**	**6,459,950**	**373,388**	**94,364**	**636,848**	**7,601,878**	**101,329**	**7,703,207**
Cost at 31 December 2008		40,382	6,459,950	431,445	150,074	636,848	7,718,699	118,616	7,837,315
Accumulated depreciation and amortisation		(3,054)	-	(58,057)	(55,710)	-	(116,821)	(17,287)	(134,108)
Carrying amount at 31 December 2008		**37,328**	**6,459,950**	**373,388**	**94,364**	**636,848**	**7,601,878**	**101,329**	**7,703,207**
Additions		3,730	-	(141,619)	282,816	204,608	349,535	44,890	394,425
Depreciation and amortisation charge	21	(10,586)	-	(70,080)	(104,214)	-	(184,880)	(22,119)	(206,999)
Impairment charge through profit and loss		-	(231,064)	-	-	-	(231,064)	-	(231,064)
Carrying amount at 31 December 2009		**30,472**	**6,228,886**	**161,689**	**272,966**	**841,456**	**7,535,469**	**124,100**	**7,659,569**
Cost at 31 December 2009		44,112	6,228,886	289,826	432,890	841,456	7,837,170	163,507	8,000,677
Accumulated depreciation and amortisation		(13,640)	-	(128,137)	(159,924)	-	(301,701)	(39,406)	(341,107)
Carrying amount at 31 December 2009		**30,472**	**6,228,886**	**161,689**	**272,966**	**841,456**	**7,535469**	**124,101**	**7,659,570**

Construction in progress consists of the construction and refurbishment of a building. Upon completion, the assets will be transferred to premises and equipment and the building will be used as the main office of the Bank.

In 2009, as a result of impairment test impairment loss was recognised in profit and loss of GEL 231,064 in respect of a building located in Tbilisi, Georgia (2008: GEL 391,726).

11. Other Financial Assets

In Georgian Lari	2009	2008
Receivables	-	1,442
Accrued commission on guarantees	24,394	34,717
Total other financial assets	**24,394**	**36,159**

The analysis by credit quality of other financial receivables outstanding at 31 December 2009 is, as follows:

In Georgian Lari	Receivables	Accrued commission on guarantees	Total
Current and not impaired			
- Medium size companies	-	24,394	24,394
Total other financial receivables	**-**	**24,394**	**24,394**

The analysis by credit quality of other financial receivables outstanding at 31 December 2008 is, as follows:

In Georgian Lari	Receivables	Accrued commission on guarantees	Total
Current and not impaired			
- Medium size companies	1,442	34,717	36,159
Total other financial receivables	**1,442**	**34,717**	**36,159**

The carrying value of each class of other financial assets approximates fair value at 31 December 2009. Refer to Note 26.

The information on related party balances is disclosed in Note 28.

12. Other Assets

In Georgian Lari	2009	2008
Advances for purchase of furniture and fixtures	-	205,657
Advances for the purchase of services	2,609	-
Other	14,265	6,197
Total other assets	**16,874**	**211,854**
Current	16,874	6,197
Non-current	-	205,657

13. Due to Other Banks

In Georgian Lari	2009	2008
Term placements of other banks	4,873,411	5,557,644
Correspondent accounts and overnight placements of other banks	1,738,308	3,522,021
Loans from banks	-	930,496
Total due to other banks	**6,611,719**	**10,010,161**

At 31 December 2009, due to other banks are comprised of the following items:

In Georgian Lari	Grant Date	Maturity Date	Currency	Interest rate per annum	Outstanding amount in original currency	Outstanding amount in GEL
Correspondent account – related Azerbaijani bank		Current	USD		250,000	421,450
Correspondent account – unrelated Georgian bank		Current	GEL		1,300,000	1,300,000
Correspondent account – related Russian bank						
Correspondent account - unrelated Georgian bank		Current	USD		10,000	16,858
Term deposit – Parent Bank	September 2008	January 2010	EUR	8.0%	2,000,000	4,873,411
Total due to other banks					**3,560,000**	**6,611,719**

At 31 December 2008, due to other banks are comprised of the following items:

In Georgian Lari	Grant Date	Maturity Date	Currency	Interest rate per annum	Outstanding amount in original currency	Outstanding amount in GEL
Correspondent account – related Azerbaijani bank		Current	GEL	-	27	27
Correspondent account – unrelated Georgian bank		Current	GEL	-	1,430,000	1,430,000
Correspondent account – related Russian bank		Current	USD	1.8%	1,004,946	1,675,244
Correspondent account - unrelated Georgian bank		Current	USD	-	250,000	416,750
Loan – unrelated Georgian bank	December 2008	January 2009	GEL	14.0%	930,496	930,496
Term deposit – Parent Bank	September 2008	September 2009	EUR	8.0%	2,000,000	4,729,600
Term deposit – Parent Bank	December 2008	June 2009	EUR	8.0%	350,154	828,044
Total due to other banks					**5,965,623**	**10,010,161**

The carrying value of each class of due to other banks approximates fair value at 31 December 2009. Refer to Note 26.

The interest rate and maturity analysis are disclosed in Note 23. The information on related party balances is disclosed in Note 28.

14. Customer Accounts

In Georgian Lari	2009	2008
State and public organisations		
- Current/settlement accounts	-	1,983,000
Other legal entities		
- Current/settlement accounts	51,951,117	7,395,240
Individuals		
- Current/demand accounts	26,506	124,959
Total customer accounts	**51,977,623**	**9,503,199**

Economic sector concentrations within customer accounts are, as follows:

	2009		2008	
In Georgian Lari	Amount	%	Amount	%
Construction	36,674,484	71	5,582,509	59
Energy	13,714,572	26	88,542	1
Trade and services	1,512,314	3	1,466,150	15
Individuals	26,506	-	124,959	1
Public	-	-	1,983,000	21
Transportation	327	-	258,039	3
Other	49,420	-	-	-
Total customer accounts	**51,977,623**	**100**	**9,503,199**	**100**

At 31 December 2009, the Bank had 10 customers (2008: 9 customers) with balances above GEL 100,000. The aggregate balance of these customers was GEL 51,078,999 (2008: GEL 8,897,672) or 98% (2008: 94%) of total customer accounts.

At 31 December 2009, current/settlement accounts of other legal entities include current accounts of a local construction company with a balance of GEL 34,064,907 and an oil distribution company with a balance of GEL 13,560,579. These balances represent 67% and 26% of total customer accounts at 31 December 2009, respectively. There was no significant concentration at 31 December 2008

The carrying value of each class of customer accounts approximates fair value at 31 December 2009. Refer to Note 26.

The interest rate and maturity analysis are disclosed in Note 23. The information on related party balances is disclosed in Note 28.

15. Other Financial Liabilities

Other financial liabilities comprise the following:

In Georgian Lari	2009	2008
Professional fees payable	88,100	87,117
Payables to non resident banks	45,508	101,524
Total other financial liabilities	**133,608**	**188,641**

The carrying value of each class of other financial liabilities approximates fair value at 31 December 2008. Refer to Note 26. The information on related party balances is disclosed in Note 28.

16. Other Liabilities

Other liabilities comprise the following: *In Georgian Lari*	**2009**	**2008**
Property tax payable	327	45,464
Total other liabilities - current	**327**	**45,464**

17. Subordinated Debt

In Georgian Lari	**2009**	**2008**
Subordinated debt from the Parent Bank	8,429,000	8,335,000
Total subordinated debt	**8,429,000**	**8,335,000**

On 14 July 2008 the Bank signed a Subordinated Debt Agreement with the International Bank of Azerbaijan (registered in the Republic of Azerbaijan, the “Parent Bank”) for obtaining funds in the amount of USD 1,000,000 to be used for working capital purposes. The principal amount is to be repaid in one installment on 29 June 2013. The subordinated debt carried an interest rate of 9% per annum. The Bank is obliged to make interest repayments on a quarterly basis.

On 29 June 2007, the Bank signed a Subordinated Debt Agreement with the Parent Bank for obtaining funds in the amount of USD 4,000,000 to be used for working capital purposes. The principal amount is to be repaid in one installment on 29 June 2013. The subordinated debt carried an interest rate of 10.5% per annum until 17 September 2007, when it was decreased to 9 % per annum for the period subsequent to 17 September 2007. The Bank is obliged to make interest repayments on a quarterly basis.

In accordance with the Subordinated Debt Agreements, the above subordinated debts rank after all other creditors in case of the Bank’s liquidation. These subordinated debts meet the criteria set by the National Bank of Georgia to be classified as “subordinated debt” and included under equity in accordance with the Georgian legislation for the purposes of calculation and compliance with certain statutory ratios set by the National Bank of Georgia. These subordinated debts are not classified as equity in these financial statements.

The carrying value of subordinated debt approximates its fair value at 31 December 2009. Refer to Note 26. The information on related party balances is disclosed in Note 28.

18. Share Capital

On incorporation, the total par value of the Bank’s authorised, issued and registered share capital was GEL 12,000,000. There have been no subsequent changes to the level of share capital in 2009 and 2008.

At 31 December 2009 and 2008, the Parent Bank owned 75% of the Bank’s shares. In addition, the Industrial Bank of Azerbaijan and Mr. Ivane Chkhartishvili each owned 12.5% of the Bank’s shares.

All ordinary shares have a nominal value of GEL 1,000 per share and rank equally. Each share carries one vote.

19. Interest Income and Expense

In Georgian Lari	2009	2008
Interest income		
Interest income on originated loans and advances to customers	2,479,143	3,169,952
Interest income on correspondent accounts with other banks	49,163	234,066
Total interest income	**2,528,306**	**3,404,018**
Interest expense		
Interest expense on subordinated debt	751,586	599,304
Due to other banks	501,157	122,496
Other	9,036	8,721
Total interest expense	**1,261,779**	**730,521**
Net interest income	**1,266,527**	**2,673,497**

20. Fee and Commission Income and Expense

In Georgian Lari	2009	2008
Fee and commission income		
Agency fees	611,925	297,990
Commission income on guarantees	196,747	74,880
Other fees and commissions	154,795	71,527
Commission on cash transactions	64,233	103,277
Commissions on settlement transactions	60,926	93,394
Total fee and commission income	**1,088,626**	**641,068**
Fee and commission expense		
Commissions on communication and computer centre	121,864	157,956
Commissions on guarantees and letters of credit	27,058	-
Commissions on settlement transactions	14,178	6,914
Other fees and commissions	11,290	26,859
Commissions on cash collection	3,437	7,734
Total fee and commission expense	**177,827**	**199,463**
Net fee and commission income	**910,799**	**441,605**

21. Administrative and Other Operating Expenses

In Georgian Lari	Note	2009	2008
Staff costs		944,240	860,308
Depreciation on premises and equipment	10	184,880	81,863
Rent expenses		182,616	85,208
Security expenses		162,409	118,360
Professional fees		144,989	141,934
Taxes other than on income		75,572	84,614
Business trip expenses		27,472	16,148
Amortisation of intangible assets	10	22,119	12,947
Insurance expenses		20,354	2,601
Repair and maintenance expenses		20,060	13,584
Communication expenses		13,857	26,153
Utility expenses		14,030	17,621
Publishing and stationary expenses		11,430	23,278
Other expenses		187,917	62,988
Total administrative and other operating expenses		**2,011,945**	**1,547,607**

22. Income Taxes

Income tax expense comprises the following:

In Georgian Lari	2009	2008
Current tax	-	30,159
Income tax expense	**-**	**30,159**

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

In Georgian Lari	2009	2008
IFRS loss before tax	**(750,832)**	**(1,474,080)**
Theoretical tax credit at statutory rate (2008: 15%)	112,623	221,112
Tax effect of non-deductible expenses	(4,234)	(32,574)
Unrecognised potential deferred tax asset	(108,389)	(218,697)
Income tax expense for the year	**-**	**30,159**

The Bank did not recognise potential deferred tax assets in respect of unused tax loss carry forwards of GEL 187,459 (2008: unused tax loss carry forwards of GEL 111,368) and deductible temporary differences of GEL 203,971 (2008: taxable temporary differences of GEL 171,674). In accordance with Georgian tax legislation business and capital losses may be carried forward for up to 5 years.

Tax effect of non-deductible expenses in 2008 includes GEL 30,159 paid by the Bank as an income tax prepayment during 2007 and 2008. According to the new legislation, which is officially enacted as of 31 December 2008, the Bank will not be able to utilise this prepayment against the income taxes to be accrued on future profits. Therefore, the Bank decided to charge this prepayment to the statement of comprehensive income during 2008.

22. Income Tax (Continued)

Differences between IFRS and Georgia statutory taxation regulations 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 recorded at the rate of 15%.

In Georgian Lari	31 December 2008	Credited / (Charged) to profit and loss	31 December 2009
Tax effect of taxable temporary differences			
Tax losses carried forward	111,368	76,091	187,459
Accrual of professional fees	13,069	1,310	14,379
Impairment of property	58,759	34,660	93,419
Depreciation of premises and equipment	(14,785)	2,386	(12,399)
Loan impairment provision	99,915	-	99,915
Accrual of interest income	(6,575)	160	(6,415)
Other	21,290	(6,218)	15,072
Gross deferred tax asset	**304,401**		**410,244**
Gross deferred tax liability	**(21,360)**		**(18,814)**
Deferred tax asset – not recognised	**283,041**	**108,389**	**391,430**

In Georgian Lari	31 December 2007	Credited / (Charged) to profit and loss	31 December 2008
Tax effect of taxable temporary differences			
Tax losses carried forward	76,672	34,696	111,368
Accrual of professional fees	11,682	1,387	13,069
Impairment of property	-	58,759	58,759
Provision for potential penalties	8,330	(8,330)	-
Depreciation of premises and equipment	(6,568)	(8,217)	(14,785)
Loan impairment provision	(25,772)	125,687	99,915
Accrual of interest income	-	(6,575)	(6,575)
Other	-	21,290	21,290
Gross deferred tax asset	**96,684**		**304,401**
Gross deferred tax liability	**(32,340)**		**(21,360)**
Deferred tax asset – not recognised	**64,344**	**218,697**	**283,041**

While Management expects the Bank to have future taxable profits in order to be able to utilise the tax losses carried forward, as a newly formed entity, Management considers that convincing evidence is not yet available that would confirm sufficient taxable profit being available against which value could be obtained for the calculation of deferred tax asset. Refer to Note 4.

23. Financial Risk Management

The Bank has exposure to financial risks, which include credit, liquidity, market and operational risks. The taking of risk is integral to the Bank's business. The Bank's risk management function's aim is to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Bank's financial performance.

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 and off balance sheet credit exposures. 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.

23. Financial Risk Management (Continued)

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

- The Parent Bank's credit committee is required to review and approve all amounts above GEL 1,685,800 equivalent of USD 1,000,000. It is also responsible for issuing guidance to the Bank's credit committee in relation to all other loans;

- The Bank's Credit committee reviews and approves all amounts below GEL 1,685,800 equivalent of USD 1,000,000. The Credit Committee meets on a weekly basis.

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

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 than 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 on balance sheet 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 credit exposure risk of customer loans is disclosed in Note 8. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The credit risk for off-balance items is measured the same as for on-balance items. The Bank's maximum exposure to off-balance credit risk is reflected in Note 25 "Contingencies and Commitments".

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. The goal of the Bank's market risk management is to limit and reduce the amount of possible losses on open market positions that may be incurred by the Bank due to negative changes in currency exchange rates and interest rates. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. Management are currently formalising the level of risk that may be accepted by the Bank as the size of operations grow, prior to the limits being approved by the Board of Directors.

Currency risk. In respect of currency risk, the Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk

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

In Georgian Lari	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
GEL	6,182,227	3,871,187	2,311,040
USD	26,423,224	24,332,843	2,090,381
EURO	36,131,940	38,947,920	(2,815,980)
Total	**68,737,391**	**67,151,950**	**1,585,441**

23. Financial Risk Management (Continued)

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

In Georgian Lari	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
GEL	9,560,794	3,811,000	5,749,794
USD	17,682,000	18,569,001	(887,001)
EURO	2,937,000	5,657,000	(2,720,000)
Total	**30,179,794**	**28,037,001**	**2,142,793**

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk.

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

- Ensuring and monitoring that the open currency positions is below the limit is 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 Bank has extended loans and advances denominated in foreign currencies. Depending on the revenue stream and cost structure of the borrower, the possible appreciation of the currencies, in which loans and advances have been extended, against Georgian Lari may adversely affect the borrower's repayment ability and, therefore, increase the potential of future loan losses.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

	At 31 December 2009		At 31 December 2008	
In thousands of GEL	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollars strengthening by 10%	209,038	209,038	(88,700)	(88,700)
US Dollars weakening by 10%	(209,038)	(209,038)	88,700	88,700
Euro strengthening by 5%	(140,799)	(140,799)	(136,000)	(136,000)
Euro weakening by 5%	140,799	140,799	136,000	136,000

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 daily basis and sets limits on the level of mismatch of interest rate re-pricing 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 re-pricing or maturity dates.

23. Financial Risk Management (Continued)

In Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2009					
Total financial assets	54,367,178	6,209,843	1,278,212	6,882,738	68,737,971
Total financial liabilities	58,517,686	44,356	160,908	8,429,000	67,151,950
Net interest sensitivity gap at 31 December 2009	**(4,150,508)**	**6,165,487**	**1,117,304**	**(1,546,262)**	**1,586,021**
31 December 2008					
Total financial assets	9,690,794	2,485,000	3,556,000	14,502,000	30,233,794
Total financial liabilities	14,144,721	827,680	4,729,600	8,335,000	28,037,001
Net interest sensitivity gap at 31 December 2008	**(4,453,927)**	**1,657,320**	**(1,173,600)**	**6,167,000**	**2,196,793**

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

In % p.a.	2009			2008		
	GEL	USD	Euro	GEL	USD	Euro
Assets						
Cash and cash equivalents	3.0	0.5	0.5	3.0	1.75	1.75
Loans and advances to customers-corporate	17.0	18.7	19.3	16.5	16.5	-
Loans and advances to customers-retail	24.0	18.2	21.1	18.4	18.9	15.0
Liabilities						
Due to other banks	-	8.0	8.0	-	8.0	-
Subordinated debt	-	9.0	-	-	9.0	-

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

All of the Bank's instruments carry a fixed rate of interest and accordingly the Bank has not included disclosure of any sensitivity of profit to changes in interest rates for the year.

23. Financial Risk Management (Continued)

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

In Georgian Lari	**Georgia**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	1,896,015	35,824	48,731,681	50,663,520
Mandatory cash balances with the NBG	516,736	-	-	516,736
Loans and advances to customers	17,533,321	-	-	17,533,321
Investment securities available for sale	54,000	-	-	54,000
Other financial assets	24,394	-	-	24,394
Total financial assets	**20,024,466**	**35,824**	**48,731,681**	**68,791,971**
Liabilities				
Due to other banks	16,858	-	6,594,861	6,611,719
Customer accounts	51,819,425	-	158,198	51,977,623
Subordinated debt	-	-	8,429,000	8,429,000
Other financial liabilities	89,765	-	43,843	133,608
Total financial liabilities	**51,926,048**		**15,225,902**	**67,151,950**
Net balance sheet position	**(31,901,582)**	**35,824**	**33,505,779**	**1,640,021**
Cancellable undrawn credit lines	808,238	-	-	808,238
Letters of guarantee	10,468,087	-	-	10,468,087

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

In Georgian Lari	**Georgia**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	2,570,033	35,582	2,057,672	4,663,287
Mandatory cash balances with the NBG	718,020	-	-	718,020
Loans and advances to customers	24,762,328	-	-	24,762,328
Investment securities available for sale	54,000	-	-	54,000
Other financial assets	36,159	-	-	36,159
Total financial assets	**28,140,540**	**35,582**	**2,057,672**	**30,233,794**
Liabilities				
Due to other banks	2,777,636	-	7,232,525	10,010,161
Customer accounts	9,503,199	-	-	9,503,199
Subordinated debt	-	-	8,335,000	8,335,000
Other financial liabilities	7,555	4,062	177,024	188,641
Total financial liabilities	**12,288,390**	**4,062**	**15,744,549**	**28,037,001**
Net balance sheet position	**15,852,150**	**31,520**	**(13,686,877)**	**2,196,793**
Cancellable undrawn credit lines	5,201,006	-	-	5,201,006
Letters of guarantee	4,606,711	-	-	4,606,711

Assets, liabilities and credit related commitments 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.

23. Financial Risk Management (Continued)

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining various reports relating to borrowers. The Bank did not have any such significant risk concentrations at 31 December 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 defined as 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 customer accounts, guarantees. 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 of the Asset/Liability Committee of the Bank.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and invest 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 balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a monthly basis in accordance with the requirement of the National Bank of Georgia. The ratio that is monitored is the liquidity ratio, which is calculated as the ratio of highly liquid assets to liabilities payable on demand (including off balance sheet liabilities with maturity of less than six month). This ratio was 38.11% as at 31 December 2009 (2008: 23.25%).

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 of 31 December 2009, the Bank complied with this requirement.

The table below shows liabilities at 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments.

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

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

In Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Total
Liabilities					
Due to other banks	6,611,719	-	-	-	6,611,719
Customer accounts	51,816,715	-	160,908	-	51,977,623
Subordinated debt	77,266	386,330	463,596	11,210,570	12,137,762
Other financial liabilities	89,579	44,356	-	-	133,935
Gross loan commitments – undrawn credit lines	808,238	-	-	-	808,238
Letters of guarantee	10,468,087	-	-	-	10,468,087
Total potential future payments for financial obligations	**69,871,604**	**430,686**	**624,504**	**11,210,570**	**82,137,364**

23. Financial Risk Management (Continued)

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

In Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	4,452,881	-	5,557,280	-	-	10,010,161
Customer accounts	9,503,199	-	-	-	-	9,503,199
Subordinated debt	77,266	386,330	463,596	927,192	11,210,570	13,064,954
Other financial liabilities	188,641	-	-	-	-	188,641
Gross loan commitments – undrawn credit lines	5,201,006	-	-	-	-	5,201,006
Letters of guarantee	4,606,711	-	-	-	-	4,606,711
Total potential future payments for financial obligations	**24,029,704**	**386,330**	**6,020,876**	**927,192**	**11,210,570**	**42,574,672**

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

In Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash and cash equivalents	50,663,520	-	-	-	50,663,520
Mandatory cash balances with the NBG	516,736	-	-	-	516,736
Loans and advances to customers	3,162,528	6,209,843	1,278,212	6,882,158	17,532,741
Other financial assets	24,394	-	-	-	24,394
Total financial assets	**54,367,178**	**6,209,843**	**1,278,212**	**6,882,158**	**68,737,391**
Liabilities					
Due to other banks	6,611,719	-	-	-	6,611,719
Customer accounts	51,816,715	-	160,908	-	51,977,623
Other financial liabilities	89,252	44,356	-	-	133,608
Subordinated debt	-	-	-	8,429,000	8,429,000
Total financial liabilities	**58,517,686**	**44,356**	**160,908**	**8,429,000**	**67,151,950**
Net liquidity surplus at 31 December 2009	**(4,150,508)**	**6,165,487**	**1,117,304**	**(1,546,842)**	**1,585,441**
Cumulative liquidity surplus at 31 December 2009	**(4,150,508)**	**2,014,979**	**3,132,283**	**1,585,441**	

While global events have had a significant impact on the ability to obtain new or extended term borrowings from other financial institutions, and where available, the cost of funding has typically increased, management are actively managing this position and believe that the Bank will have access to sufficient resources from its Parent Bank in order to continue to meet all of its current liabilities as they fall due.

As of report issuance date, the Bank has obtained a support letter from its Parent Bank indicating its ability and intention to continue financial support within the next twelve months period. Accordingly, management prepared these financial statements on a going concern basis. Refer to Note 4.

23. Financial Risk Management (Continued)

The analysis by expected maturities may be summarised, as follows, as at 31 December 2008:

In Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash and cash equivalents	4,663,288	-	-	-	4,663,288
Mandatory cash balances with the NBG	718,019	-	-	-	718,019
Loans and advances to customers	4,273,328	2,485,000	3,556,000	14,448,000	24,762,328
Other financial assets	36,159	-	-	-	36,159
Total financial assets	**9,690,794**	**2,485,000**	**3,556,000**	**14,448,000**	**30,179,794**
Liabilities					
Due to other banks	4,452,881	827,680	4,729,600		10,010,161
Customer accounts	9,503,199				9,503,199
Other financial liabilities	188,641	-	-	-	188,641
Subordinated debt	-	-	-	8,335,000	8,335,000
Total financial liabilities	**14,144,721**	**827,680**	**4,729,600**	**8,335,000**	**28,037,001**
Net liquidity surplus at 31 December 2008	**(4,453,927)**	**1,657,320**	**(1,173,600)**	**6,113,000**	**2,141,793**
Cumulative liquidity surplus at 31 December 2008	**(4,453,927)**	**(2,796,607)**	**(3,970,207)**	**2,142,793**	

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 increases 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.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

24. Management of Capital

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

Under the current capital requirements set by the NBG banks have to: (a) hold the minimum level of share 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 15,020,526 as at 31 December 2009 (2008: GEL 16,039,245).

24. Management of Capital (Continued)

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

In Georgian Lari	**2009**	**2008**
Tier 1 capital		
Share capital	12,000,000	12,000,000
Retained earnings	(1,504,239)	(429,371)
Less: intangible assets	(124,100)	(101,329)
Total tier 1 capital after deductions	**10,371,661**	**11,469,300**
Tier 2 capital		
Current year loss	(750,832)	(1,504,239)
Reserves	213,868	339,535
Subordinated debt (up to 50% of total tier 1 capital)	5,185,830	5,734,650
Total tier 2 capital	**4,648,866**	**4,569,946**
Total regulatory capital	**15,020,527**	**16,039,246**
Risk-weighted assets:		
On-balance sheet (A-Can)	46,174,021	42,621,615
Off-balance sheet	11,276,325	9,807,717
Total risk-weighted assets	**57,450,346**	**52,430,332**

	2009	**2008**
Core capital adequacy ratio (Tier 1)	18.05%	21.88%
Total capital adequacy ratio (Tier 1 and Tier 2)	26.15%	30.59%

Management considers that the Bank has complied with the statutory capital adequacy ratio requirements and also all other externally imposed capital requirements at 31 December 2009.

25. Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. Based on its own estimates and internal professional advice the Bank's Management is of the opinion that no material losses will be incurred in respect of claims and, accordingly, no provision has been made in this set of financial statements.

Compliance with the NBG regulations. The Bank is subject to certain statutory regulations set by the NBG related primarily to its operations. Non-compliance with such regulations may result in negative consequences for the Bank including penalties imposed by the NBG. The Bank was not in breach of any of these regulations as at 31 December 2009 and 2008.

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 proceeding 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, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2009 no provision for potential tax liabilities has been recorded.

25. Contingencies and Commitments (Continued)

Capital expenditure commitments. At 31 December 2009, the Bank does not have material contractual capital expenditure commitments.

Operating lease commitments. The Bank has operating leases, which may be cancelled subject to a certain minimum notice period. The future minimum lease payments under operating leases until the end of the notice period are as follows:

In Georgian Lari	31 December 2009	31 December 2008
Not later than 1 year	182,616	85,208
Total operating lease commitments	**182,616**	**85,208**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

	31 December 2009		31 December 2008	
In Georgian Lari	Outstanding amount	Fair value	Outstanding amount	Fair value
Cancellable undrawn credit lines	808,238	-	5,201,006	-
Letters of guarantee	10,468,087	-	4,606,711	-
Total credit related commitments	**11,276,325**	**-**	**9,807,717**	-

The total outstanding contractual amount of undrawn credit lines and guarantees 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 zero at 31 December 2009 (2008: Nil). Credit related commitments are denominated in Georgian Lari.

26. 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:

In Georgian Lari	2009 Carrying amount	2009 Fair value	2008 Carrying amount	2008 Fair value
FINANCIAL ASSETS				
Cash and cash equivalents	50,663,520	50,663,520	4,663,288	4,663,288
Loans and advances to customers				
Corporate loans	13,007,116	12,827,450	19,809,202	19,809,202
Loans to individuals – mortgage loans	1,797,998	1,773,162	1,937,056	1,937,056
Loans to individuals – consumer loans	1,274,810	1,257,201	1,887,790	1,887,790
Loans to individuals – entrepreneurs	1,211,642	1,194,334	997,370	997,370
Loans to individuals – purchase of motor vehicles	241,755	238,416	130,910	130,910
Other financial assets	24,394	24,394	36,159	36,159
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**68,221,235**	**67,978,477**	**29,461,775**	**29,461,775**

In Georgian Lari	2009 Carrying amount	2009 Fair value	2008 Carrying amount	2008 Fair value
FINANCIAL LIABILITIES				
Due to other banks	6,611,719	6,611,719	10,010,161	10,010,161
Customer accounts				
- Current/settlement accounts of state and public organisations	-	-	1,983,000	1,983,000
- Current/settlement accounts of other legal entities	51,951,117	51,951,117	7,395,240	7,395,240
- Current/demand accounts of individuals	26,506	26,506	124,959	124,959
Other financial liabilities	133,608	133,608	188,641	188,641
Subordinated debt	8,429,000	8,429,000	8,335,000	8,335,000
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**67,151,950**	**67,151,950**	**28,037,001**	**28,037,001**

(b) 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.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

26. Fair Value of Financial Instruments (Continued)

Loans and receivables carried at amortised cost The estimated fair value of fixed interest rate instruments is 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. The discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2009	2008
Corporate loans	10 % to 18 % p.a.	10 % to 20 % p.a.
Loans to individuals – mortgage loans	16 % to 22 % p.a.	10 % to 20 % p.a.
Loans to individuals – consumer loans	18 % to 24 % p.a.	18 % to 24 % p.a.
Loans to individuals – entrepreneurs	18 % to 24 % p.a.	16 % to 24 % p.a.
Loans to individuals – purchase of motor vehicles	18 % to 28 % p.a.	18 % to 28 % p.a.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to respective notes for the estimated fair values of customer accounts, subordinated debt, and other financial liabilities. Discount rate used was consistent with the Bank's credit risk and also depend on currency and maturity of the instrument and ranged from 9 % p.a. to 10 % p.a. (2007: 9 % p.a. to 10 % p.a.)

27. Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables and (b) available for sale financial assets. At 31 December 2009 and 2008, all financial assets of the Bank are categorised as loans and receivables, except for investment securities available for sale. Investment securities available for sale are carried at cost.

All of the Bank's financial liabilities are carried at amortised cost.

28. 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.

The Parent Bank is a related party of the Bank and transactions and balances with the Parent Bank are set out in the tables below. In addition, transactions with parties, over which the Parent Bank has control or significant influence, are set out in the "Related parties of the Parent Bank" column in the table below.

In addition, for entities that other shareholders of the Bank (not including the Parent Bank) have control or significant influence over, these transactions are disclosed as "other parties".

28. Related Party Transactions (Continued)

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

In Georgian Lari	Parent Bank	Related parties of the Parent Bank	Other parties
Nostro accounts (non interest bearing)	47,677,010	-	-
Gross amount of loans and advances to customers (contractual interest rate: 2008: 12%-18% p.a.)	-	737,605	52,666
Due to other banks (contractual interest rate: 8% p.a.)	4,873,412	-	-
Current/settlements accounts (non interest bearing)	-	-	13,798,806
Other financial liabilities:			
- Payable to the Parent Bank	43,819	-	-
Subordinated debt (contractual interest rate: 9% p.a.)	8,429,000	-	-

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

In Georgian Lari	Parent Bank	Related parties of the Parent Bank	Other parties
Nostro accounts (non interest bearing)	1,005,770	8,338	-
Gross amount of loans and advances to customers (contractual interest rate: 2007: 12%-18% p.a.)	-	1,931,063	1,062,721
Due to other banks (contractual interest rate: 8% p.a.)	5,557,280	1,675,245	-
Current/settlements accounts (non interest bearing)	-	75,918	48,340
Subordinated debt (contractual interest rate: 9% p.a.)	8,335,000	-	-

The income and expense items with related parties for the year ended 31 December 2009 were as follows:

In Georgian Lari	Parent Bank	Related parties of the Parent Bank	Other parties
Interest income on loans and advances to customers	-	23,231	3,432
Interest expense on due to other banks	78,332	-	7,467
Interest expense on subordinated debt	1,205,024	-	-

The income and expense items with related parties for the year ended 31 December 2008 were as follows:

In Georgian Lari	Parent Bank	Related parties of the Parent Bank	Other parties
Interest income on loans and advances to customers	-	17,930	35,836
Interest expense on due to other banks	101,196	8,774	-
Interest expense on subordinated debt	599,304	-	-

During the year ended 31 December 2009, the remuneration of key management personnel was GEL 274,203 and comprised salaries, discretionary bonuses, social taxes, and other short-term benefits (2008: GEL 363,443).