

**JSC BasisBank**

Consolidated Financial Statements  
for the Year Ended 31 December 2009

## Contents

Independent Auditors' Report.....	3
Consolidated statement of comprehensive income .....	4
Consolidated statement of financial position .....	5
Consolidated statement of cash flows .....	6
Consolidated statement of changes in equity .....	7
Notes to the consolidated financial statements .....	8
1 Background .....	8
2 Basis of preparation.....	9
3 Significant accounting policies .....	10
4 Net interest income .....	19
5 Fee and commission income .....	19
6 Fee and commission expense .....	19
7 Net foreign exchange income.....	20
8 Other operating income.....	20
9 Impairment losses .....	20
10 Personnel expenses.....	20
11 Other general administrative expenses.....	21
12 Income tax benefit.....	21
13 Due from the National Bank of Georgia .....	22
14 Placements with banks .....	23
15 Loans to customers.....	24
16 Available-for-sale assets .....	30
17 Held-to-maturity investments.....	31
18 Assets held for sale.....	31
19 Property and equipment .....	32
20 Other assets .....	33
21 Deposits and balances from banks .....	34
22 Amounts payable under repurchase agreements .....	34
23 Current accounts and deposits from customers.....	34
24 Other borrowed funds .....	35
25 Other liabilities.....	35
26 Equity.....	35
27 Risk management.....	36
28 Capital management.....	41
29 Commitments .....	41
30 Operating leases .....	42
31 Contingencies.....	42
32 Related party transactions .....	43
33 Cash and cash equivalents.....	45
34 Fair value of financial instruments.....	45
35 Average effective interest rates .....	46
36 Maturity analysis.....	47
37 Currency analysis.....	48
38 Acquisitions .....	49



**Tbilisi Branch of KPMG CIS Limited**  
6 Khetagurov str.  
Tbilisi, 0102  
Georgia

Tel. +995 (32) 935 713  
Fax +995 (32) 982 276  
Internet: [www.kpmg.com](http://www.kpmg.com)

## **Independent Auditors' Report**

To the Supervisory Board  
JSC BasisBank

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of JSC BasisBank (the "Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### *Opinion*

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

Tbilisi Branch of KPMG CIS Limited  
19 May 2010

*JSC BasisBank*  
*Consolidated statement of comprehensive income for the year ended 31 December 2009*

	Notes	2009 GEL'000	2008 GEL'000
Interest income	4	11,782	12,277
Interest expense	4	(5,372)	(5,414)
<b>Net interest income</b>		<b>6,410</b>	<b>6,863</b>
Fee and commission income	5	2,911	3,864
Fee and commission expense	6	(1,227)	(1,205)
<b>Net fee and commission income</b>		<b>1,684</b>	<b>2,659</b>
Net foreign exchange income	7	1,386	1,819
Other operating income	8	1,474	121
<b>Operating income</b>		<b>10,954</b>	<b>11,462</b>
Impairment losses	9	(4,379)	(4,658)
Personnel expenses	10	(4,487)	(4,780)
Other general administrative expenses	11	(4,176)	(4,389)
<b>Loss before taxes</b>		<b>(2,088)</b>	<b>(2,365)</b>
Income tax benefit	12	134	411
<b>Loss</b>		<b>(1,954)</b>	<b>(1,954)</b>
<b>Other comprehensive income</b>			
Realisation of revaluation surplus for property and equipment on sale, net of tax		-	301
Transfer of realisation of revaluation surplus for property and equipment on sale to retained earnings, net of tax		-	(301)
<b>Other comprehensive income, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>(1,954)</b>	<b>(1,954)</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		(1,954)	(1,954)
Non-controlling interest		-	-
<b>Total comprehensive income</b>		<b>(1,954)</b>	<b>(1,954)</b>

The consolidated financial statements were approved by the Board of Directors on 19 May 2010 and signed on its behalf by:

\_\_\_\_\_  
Zurab Tsikhistavi  
General Director

\_\_\_\_\_  
Lia Alsanikashvili  
Chief Financial Officer

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	<b>2009</b> <b>GEL'000</b>	<b>2008</b> <b>GEL'000</b>
<b>ASSETS</b>			
Cash		12,089	9,052
Due from the National Bank of Georgia	13	5,333	4,511
Placements with banks	14	15,514	13,242
Loans to customers	15	54,835	63,531
Available-for-sale assets	16	54	54
Held-to-maturity investments			
- Held by the Group	17	5,596	122
- Pledged under sale and repurchase agreements	17	-	2,954
Assets held for sale	18	4,469	-
Current tax asset		-	418
Property and equipment	19	12,708	12,833
Intangible assets		183	162
Other assets	20	8,734	4,429
<b>Total assets</b>		<b>119,515</b>	<b>111,308</b>
<b>LIABILITIES</b>			
Deposits and balances from banks	21	924	6,872
Amounts payable under repurchase agreements	22	-	2,801
Current accounts and deposits from customers	23	81,416	62,045
Other borrowed funds	24	15,319	15,681
Deferred tax liability	12	235	369
Other liabilities	25	1,272	1,487
<b>Total Liabilities</b>		<b>99,166</b>	<b>89,255</b>
<b>EQUITY</b>			
Share capital	26	5,912	5,912
Share premium	26	5,612	5,612
Revaluation surplus for property and equipment		2,188	2,188
Retained earnings		6,387	8,341
<b>Total equity attributable to equity holders of the Bank</b>		<b>20,099</b>	<b>22,053</b>
Non-controlling interest		250	-
<b>Total equity</b>		<b>20,349</b>	<b>22,053</b>
<b>Total liabilities and equity</b>		<b>119,515</b>	<b>111,308</b>

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	2009 GEL'000	2008 GEL'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest and fee and commission receipts		14,815	15,691
Interest and fee and commission payments		(6,413)	(6,457)
Net receipts from foreign exchange		1,371	1,708
Other income		1,474	221
Personnel expenses and other general administrative expenses		(7,587)	(8,184)
<b>(Increase) decrease in operating assets</b>			
Due from the National Bank of Georgia		(631)	3,060
Placements with banks		(4,438)	(323)
Loans to customers		(3,677)	(5,349)
Available-for-sale assets		-	(54)
Other assets		(1,549)	(602)
<b>Increase (decrease) in operating liabilities</b>			
Deposits and balances from banks		(5,953)	1,183
Amounts payable under repurchase agreements		(2,801)	2,801
Current accounts and deposits from customers		19,164	(8,049)
Other liabilities		487	917
<b>Net cash provided from operating activities before income tax paid</b>		<b>4,262</b>	<b>(3,437)</b>
Income tax paid		-	(598)
<b>Cash flows from operations</b>		<b>4,262</b>	<b>(4,035)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of held-to-maturity investments		(5,596)	(3,019)
Maturity of held-to-maturity investments		3,100	-
Purchases of property and equipment		(996)	(5,512)
Purchases of intangible assets		(50)	(111)
Proceeds from disposal of property and equipment		30	573
Prepayments for property and equipment		540	(888)
<b>Cash flows from investing activities</b>		<b>(2,972)</b>	<b>(8,957)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net receipts (repayments) of other borrowed funds		(149)	5,882
Proceeds from issuance of share capital		-	887
Proceeds from share premium		-	5,612
<b>Cash flows from financing activities</b>		<b>(149)</b>	<b>12,381</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>1,141</b>	<b>(611)</b>
Effect of changes in exchange rates on cash and cash equivalents		(27)	(229)
Cash and cash equivalents as at the beginning of the year		22,217	23,057
<b>Cash and cash equivalents as at the end of the year</b>	33	<b>23,331</b>	<b>22,217</b>

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Attributable to equity holders of the Bank						
	Share capital GEL'000	Share premium GEL'000	Revaluation surplus for property and equipment GEL'000	Retained earnings GEL'000	Total GEL'000	Non- controlling interest GEL'000	Total equity GEL'000
<b>Balance as at 1 January 2008</b>	5,025	-	2,489	9,994	17,508	-	17,508
<b>Total comprehensive income</b>							
Loss	-	-	-	(1,954)	(1,954)	-	(1,954)
<b>Other comprehensive income</b>							
Realisation of revaluation surplus for property and equipment on sale, net off tax	-	-	(301)	-	(301)	-	(301)
Transfer of realisation of revaluation surplus for property and equipment on sale to retained earnings, net off tax	-	-	-	301	301	-	301
Total other comprehensive income	-	-	(301)	301	-	-	-
<b>Total comprehensive income</b>	-	-	(301)	(1,653)	(1,954)	-	(1,954)
Shares issued	887	-	-	-	887	-	887
Share premium	-	5,612	-	-	5,612	-	5,612
<b>Balance as at 31 December 2008</b>	<b>5,912</b>	<b>5,612</b>	<b>2,188</b>	<b>8,341</b>	<b>22,053</b>	<b>-</b>	<b>22,053</b>
<b>Balance as at 1 January 2009</b>	5,912	5,612	2,188	8,341	22,053	-	22,053
<b>Total comprehensive income</b>							
Loss	-	-	-	(1,954)	(1,954)	-	(1,954)
<b>Total comprehensive income</b>	-	-	-	(1,954)	(1,954)	-	(1,954)
Disposal of a non-controlling interest	-	-	-	-	-	250	250
<b>Balance at 31 December 2009</b>	<b>5,912</b>	<b>5,612</b>	<b>2,188</b>	<b>6,387</b>	<b>20,099</b>	<b>250</b>	<b>20,349</b>

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

# 1 Background

## Principal activities

These consolidated financial statements include the financial statements of JSC BasisBank (the “Bank”) and its subsidiaries (together referred to as the “Group”). The principal subsidiaries of the Bank include asset management and construction companies.

JSC BasisBank is a joint stock bank, which was established in Georgia in 1993. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the National Bank of Georgia (“NBG”). The Bank has 18 branches operating in Georgia.

The registered address of the Bank is 1 Ketevan Tsamebuli Street, 0103 Tbilisi, Georgia. The majority of the Bank’s assets and liabilities are located in Georgia. The average number of people employed by the Bank during the year was 278 (2008: 256).

On 28 September 2009 the Bank established a subsidiary –Basis Asset Management LTD, an asset management company with 100% ownership. On 29 September 2009 Basis Asset Management acquired 75% of Paladi Imperial Partnership, a construction company.

The principal subsidiaries of the Bank are as follows:

Name	Country of incorporation	Principal activities	Ownership %	
			2009	2008
Basis Asset Management	Georgia	Asset management	100%	-
Paladi Imperial	Georgia	Construction	75%	-

## Shareholders

As at 31 December 2009 and 2008, the following individuals owned the share capital of the Bank:

Shareholders	2009 Ownership interest, %	2008 Ownership interest, %
European Bank for Reconstruction and Development (EBRD)	15.00%	15.00%
Zurab Tsikhistavi	13.92%	13.92%
Eldar Mildiani	9.89%	9.89%
Zurab Nishnianidze	8.51%	8.51%
Murman Ambroladze	6.58%	6.58%
Archil Maziashvili	6.33%	6.33%
Ketevan Soselia	5.62%	5.62%
Taras Nijaradze	4.58%	4.58%
Gia Petriashvili	4.57%	4.57%
Giorgi Vachnadze	4.44%	-
Goderzi Meladze	4.42%	4.42%
Tengiz Maziashvili	4.38%	4.38%
Ketevan Skhirtladze	-	4.44%
Other individuals	11.76%	11.76%
	<b>100.00%</b>	<b>100.00%</b>



## **Georgian business environment**

Georgia has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. The Group's operations and assets could be at risk as a result of negative changes in the political, economic or business environment. In addition, the contraction in the capital and credit markets and its impact on the economy of Georgia have further increased the level of economic uncertainty in the environment. These consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## **2 Basis of preparation**

### **Statement of compliance**

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

### **Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis except that buildings are stated at revalued amounts.

### **Functional and presentation currency**

The functional currency of the Bank and its subsidiaries is the Georgian Lari ("GEL") as, being the national currency of Georgia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The GEL is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in GEL is rounded to the nearest thousand.

### **Use of estimates and judgments**

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- Loan impairment estimates – note 15
- Building revaluation estimates – note 19
- Other assets impairment estimates – note 20

### **3 Significant accounting policies**

The following significant accounting policies are consistently applied in the preparation of the consolidated financial statements. Changes in accounting policies are described at the end of this note.

#### **Basis of consolidation**

##### ***Subsidiaries***

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

##### ***Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### **Non-controlling interest**

Non-controlling interest is that part of profit or loss, other comprehensive income and net assets, of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Bank.

Non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Bank. Non-controlling interest in profit or loss and other comprehensive income is separately disclosed in the consolidated statement of comprehensive income.

#### **Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

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

The Group includes cash and nostro accounts with the NBG and other banks in cash and cash equivalents. The mandatory reserve deposit with the NBG is not considered to be a cash equivalent due to restrictions on its withdrawability.

## Financial instruments

### *Classification*

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

*Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

*Available-for-sale assets* are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

### *Recognition*

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

### *Measurement*

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments that are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

### ***Fair value measurement principles***

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. Where a quoted market price is not available, fair value is determined using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

### ***Gains and losses on subsequent measurement***

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on an available-for-sale asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale asset is recognized as earned in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

### ***Derecognition***

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

### ***Repurchase and reverse repurchase agreements***

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within placements with banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

### ***Offsetting***

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

## **Property and equipment**

### ***Owned assets***

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

### ***Revaluation***

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on an item of building is recognised as other comprehensive income directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised directly in equity.

### ***Depreciation***

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Leasehold improvements are depreciated over the shorter of the asset's useful life and lease term. The estimated useful lives are as follows:

– buildings	50 years
– computers and communication equipment	5 years
– furniture and fittings	5 years
– motor vehicles	5 years
– leasehold improvements	2-3 years
– other	10 years

### **Intangible assets**

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life of intangible assets is 10 years.

### **Assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

### **Impairment**

#### ***Financial assets carried at amortized cost***

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

### ***Financial assets carried at cost***

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and can not be reversed.

### ***Non financial assets***

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **Credit related commitments**

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

### **Share capital**

#### ***Share premium***

Share premium is calculated as the difference between the par value and the amount paid for shares issued.

#### ***Dividends***

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Georgian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

### **Taxation**

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.



Deferred tax is provided using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **Income and expense recognition**

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

### **Changes in accounting policies**

Starting from 1 January 2009 the Group adopted the revised version of IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). As a result the income statement is replaced by a statement of comprehensive income that also includes all non-owner changes in equity, such as the revaluation of available-for-sale assets and revaluation of property and equipment. The balance sheet is renamed to the statement of financial position and the cash flow statement is renamed to the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis.

### **New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2009, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these pronouncements on its financial statements.

- Revised IAS 24 *Related Party Disclosures* (2009) (effective for annual periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes will be analyzed during the course of the project as further phases of the standard are issued.

Various *Improvements to IFRSs* which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010.

## 4 Net interest income

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Interest income		
Loans to customers	11,584	11,966
Placements with banks	66	239
Other interest income	132	72
	<b>11,782</b>	<b>12,277</b>
Interest expense		
Deposits and balances from banks	394	1,172
Current accounts and deposits from customers	3,812	3,339
Other borrowed funds	1,166	903
	<b>5,372</b>	<b>5,414</b>

## 5 Fee and commission income

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Plastic card fees	1,236	1,369
Guarantee and letter of credit issuance fees	521	698
Settlement fees	354	365
Account maintenance and cash operations fees	381	496
Other	419	936
	<b>2,911</b>	<b>3,864</b>

## 6 Fee and commission expense

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Plastic card system fees	885	873
Settlement fees	166	192
Other	176	140
	<b>1,227</b>	<b>1,205</b>

## 7 Net foreign exchange income

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Gain on spot transactions	1,371	1,708
Gain from revaluation of financial assets and liabilities	15	111
	<b>1,386</b>	<b>1,819</b>

## 8 Other operating income

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Fines and penalties received	1,447	430
Fines and penalties paid	(29)	(82)
Gain on sale of fixed assets	-	(101)
Other	56	(126)
	<b>1,474</b>	<b>121</b>

## 9 Impairment losses

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Loans to customers	1,212	4,125
Other assets	3,167	533
	<b>4,379</b>	<b>4,658</b>

## 10 Personnel expenses

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Employee compensation	3,589	3,585
Payroll related taxes	897	1,195
	<b>4,487</b>	<b>4,780</b>

## 11 Other general administrative expenses

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Depreciation and amortization	1,121	1,016
Advertising and marketing	657	761
Security	604	539
Occupancy	516	630
Other	428	438
Professional services	396	331
Communications and information services	146	148
Taxes other than on income	137	112
Office supplies	118	186
Repairs and maintenance	36	158
Travel and training	17	70
	<b>4,176</b>	<b>4,389</b>

## 12 Income tax benefit

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
<b>Current tax benefit</b>		
Current year	-	-
Over provided in prior years	-	100
	<b>-</b>	<b>100</b>
<b>Deferred tax benefit</b>		
Origination and reversal of temporary differences	134	311
	<b>134</b>	<b>411</b>

The Group's applicable income tax rate for current tax is 15% (2008: 15%).

### Reconciliation of effective tax rate:

	<b>2009</b>		<b>2008</b>	
	<b>GEL'000</b>	<b>%</b>	<b>GEL'000</b>	<b>%</b>
Loss before taxes	(2,088)		(2,365)	
Income tax at the applicable tax rate	(313)	15%	(355)	15%
Over provided in prior years	-	-	(100)	4%
Non-deductible costs	179	(9%)	44	(2%)
	<b>(134)</b>	<b>6%</b>	<b>(411)</b>	<b>17%</b>

### Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2009 and 2008.

Movements in temporary differences during the years ended 31 December 2009 and 2008 are presented as follows.

GEL'000	Balance 1 January 2009	Recognised in income	Balance 31 December 2009
Loans to customers	303	(446)	(143)
Property and equipment	(1,436)	(59)	(1,495)
Other assets	-	450	450
Other liabilities	66	(19)	47
Tax loss carry-forwards	698	208	906
	<b>(369)</b>	<b>134</b>	<b>(235)</b>

  

GEL'000	Balance 1 January 2008	Recognised in income	Balance 31 December 2008
Loans to customers	24	279	303
Property and equipment	(696)	(740)	(1,436)
Other liabilities	(8)	74	66
Tax loss carry-forwards	-	698	698
	<b>(680)</b>	<b>311</b>	<b>(369)</b>

Tax loss carry forwards amount to GEL 906 thousand as at 31 December 2009 (2008: GEL 698 thousand). Of these losses, GEL 208 thousand expire in 2014 and GEL 698 thousand expire in 2013.

### 13 Due from the National Bank of Georgia

	2009 GEL'000	2008 GEL'000
Nostro accounts	3,446	3,216
Mandatory minimum reserve deposit	1,887	1,295
	<b>5,333</b>	<b>4,511</b>

The withdrawability of the mandatory minimum reserve deposit is restricted.

The minimum reserve deposit is a mandatory interest bearing deposit in foreign currency calculated in accordance with regulations issued by NBG and whose withdrawability is restricted. The nostro accounts represent balances with the NBG related to settlement activity and were available for withdrawal at year end. Withdrawal of the reserve deposit in GEL is not restricted, however the Bank is subject to penalties if the average required balance is not maintained over a 14 day period.

## 14 Placements with banks

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Not impaired or past due		
Nostro accounts		
OECD banks	6,268	9,749
Other foreign banks	1,432	170
Largest 10 Georgian banks	96	30
<b>Total nostro accounts</b>	<b>7,796</b>	<b>9,949</b>
Deposits and other advances to banks		
OECD banks	341	293
Other foreign banks	-	-
Largest 10 Georgian banks	7,377	3,000
<b>Total deposits and other advances to banks</b>	<b>7,718</b>	<b>3,293</b>
	<b>15,514</b>	<b>13,242</b>

### Collateral

As of 31 December 2009 and 2008 placements with banks are not collateralized.

### Concentration of placements with banks and other financial institutions

As at 31 December 2009 and 2008 the Bank had 3 and 3 banks, respectively, whose balances exceeded 10% of total placements with banks. The gross value of these balances as of 31 December 2009 and 2008 were GEL 10,934 thousand and GEL 11,321 thousand, respectively.

## 15 Loans to customers

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
<b>Loans to legal entities</b>	<b>28,964</b>	<b>31,992</b>
Loans to Individuals		
Loans collateralized by real estate	12,963	11,713
Credit cards	8,009	9,915
Auto loans	1,158	1,285
Other consumer loans	6,973	13,907
<b>Total loans to individuals</b>	<b>29,103</b>	<b>36,820</b>
<b>Gross loans to customers</b>	<b>58,067</b>	<b>68,812</b>
Impairment allowance	(3,232)	(5,281)
<b>Net loans to customers</b>	<b>54,835</b>	<b>63,531</b>

Movements in the loan impairment allowance for the year ended 31 December are as follows:

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Impairment allowance as at 1 January	5,281	1,779
Impairment losses (note 9)	1,212	4,125
Net write-offs	(3,261)	(623)
<b>Impairment allowance as at 31 December</b>	<b>3,232</b>	<b>5,281</b>

As at 31 December 2009, interest accrued on impaired loans amount to GEL 606 thousand (31 December 2008: GEL 205 thousand).

### Credit quality of the loans to legal entities portfolio

The following table provides information on the credit quality of the loans to legal entities as at 31 December 2009:

	<b>Gross loans</b>	<b>Impairment</b>	<b>Net loans</b>	<b>Impairment</b>
	<b>GEL'000</b>	<b>GEL'000</b>	<b>GEL'000</b>	<b>to gross loans</b>
				<b>%</b>
Loans without individual signs of impairment:				
- not overdue	22,818	(452)	22,366	2.0%
- watch list loans	336	(7)	329	2.1%
Impaired loans:				
- not overdue	3,552	(645)	2,907	18.2%
- overdue less than 90 days	2,171	(963)	1,208	44.4%
- overdue more than 90 days and less than 1 year	87	(87)	-	100.0%
<b>Total loans to legal entities</b>	<b>28,964</b>	<b>(2,154)</b>	<b>26,810</b>	<b>7.4%</b>



The following table provides information on the credit quality of the loans to legal entities as at 31 December 2008:

	<b>Gross loans</b> <b>GEL'000</b>	<b>Impairment</b> <b>GEL'000</b>	<b>Net loans</b> <b>GEL'000</b>	<b>Impairment to</b> <b>gross loans</b> <b>%</b>
Loans without individual signs of impairment:				
- not overdue	23,727	(949)	22,778	4.0%
- watch list loans	1,139	(46)	1,093	4.0%
Impaired loans:				
- overdue less than 90 days	3,503	(504)	2,999	14.4%
- overdue more than 90 days and less than 1 year	3,623	(1,503)	2,120	41.5%
<b>Total loans to legal entities</b>	<b>31,992</b>	<b>(3,002)</b>	<b>28,990</b>	<b>9.4%</b>

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and which can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment, negative changes in the borrower's markets

The Group has estimated impairment provision for loans to legal entities based on an analysis of the future cash flows for impaired loans. The amount of the provision is measured as the difference between the carrying amount of the loan and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan original effective interest rate.

In determining the impairment allowance for loans to legal entities, Management made the following key assumptions:

- for non-impaired loans the Group created a collective provision of 2% (2008: 4%) based on the expected loss rate of the Bank and other comparable banks in Georgia
- for impaired loans a discount of 20% to the originally appraised value if the property pledged is sold and a delay of 24 months in average in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loan impairment provision on loans to legal entities as of 31 December 2009 would be GEL 268 thousand lower/higher (31 December 2008: GEL 289 thousand).

During the year ended 31 December 2009 the Group renegotiated loans to legal entities that would otherwise be past due or impaired of GEL 4,411 thousand. Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

### *Analysis of collateral*

The following table provides the analysis of loans to legal entities portfolio, net of impairment, by types of collateral as at 31 December 2009:

	<b>2009</b> <b>GEL'000</b>	<b>% of loan</b> <b>portfolio</b>	<b>2008</b> <b>GEL'000</b>	<b>% of loan</b> <b>portfolio</b>
Real estate	18,363	68%	24,113	83%
Third party guarantees	2,414	9%	3,049	11%
Equipment and motor vehicles	2,089	8%	289	1%
Cash	2,267	9%	55	-
Unsecured	845	3%	590	2%
Inventories	809	3%	280	1%
Other	23	-	614	2%
<b>Total</b>	<b>26,810</b>	<b>100%</b>	<b>28,990</b>	<b>100%</b>

All the collateral pledged for the loans to customers were valued by the Bank during the loan initiation stage and do not necessarily represent market values as of the balance sheet date..

Impaired or overdue loans with a gross value of GEL 5,695 thousand are secured by collateral with a fair value of GEL 13,433 thousand. For the remaining impaired loans of GEL 115 thousand there is no collateral or it is impracticable to determine the fair value of collateral.

During the year ended 31 December 2009 the Group obtained assets of GEL 7,028 thousand (note 20) and shares of GEL 2,512 thousand (note 38) by taking control of collateral pledged as security for loans to legal entities (31 December 2008: GEL 1,776 thousand). The carrying amount is equal to the gross amount of the related loan.

### *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of loans to legal entities for the year ended 31 December 2009 are as follows:

	<b>2009</b> <b>GEL'000</b>	<b>2008</b> <b>GEL'000</b>
Loan impairment allowance as at 1 January	3,002	637
Net loans (written off)/recovered during the year	(316)	14
Loan impairment (recoveries)/losses during the year	(532)	2,351
<b>Loan impairment allowance as at 31 December</b>	<b>2,154</b>	<b>3,002</b>

### Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2009:

	Gross loans GEL'000	Impairment GEL'000	Net loans GEL'000	Impairment to gross loans %
<b>Loans collateralized by real estate</b>				
- not overdue	11,891	(357)	11,534	3.0%
- overdue less than 90 days	875	(62)	813	7.1%
- overdue more than 90 days and less than 1 year	191	(63)	128	33.0%
- overdue more than 1 year	6	(1)	5	16.7%
<b>Total loans collateralized by real estate</b>	<b>12,963</b>	<b>(483)</b>	<b>12,480</b>	<b>3.7%</b>
<b>Credit cards</b>				
- not overdue	7,805	(234)	7,571	3.0%
- overdue less than 90 days	178	(56)	122	31.5%
- overdue more than 90 days and less than 1 year	26	(19)	7	73.1%
<b>Total credit cards</b>	<b>8,009</b>	<b>(309)</b>	<b>7,700</b>	<b>3.9%</b>
<b>Auto loans</b>				
- not overdue	1,104	(33)	1,071	3.0%
- overdue less than 90 days	39	(3)	36	7.7%
- overdue more than 90 days and less than 1 year	15	(6)	9	40.0%
<b>Total auto loans</b>	<b>1,158</b>	<b>(42)</b>	<b>1,116</b>	<b>3.7%</b>
<b>Other consumer loans</b>				
- not overdue	6,656	(200)	6,456	3.0%
- overdue less than 90 days	278	(25)	253	9.0%
- overdue more than 90 days and less than 1 year	38	(18)	20	47.4%
- overdue more than 1 year	1	(1)	-	100.0%
<b>Total other consumer loans</b>	<b>6,973</b>	<b>(244)</b>	<b>6,729</b>	<b>3.5%</b>
<b>Total loans to individuals</b>	<b>29,103</b>	<b>(1,078)</b>	<b>28,025</b>	<b>3.7%</b>

The following table provides information on the credit quality of loans to individuals as at 31 December 2008:

	<b>Gross loans</b>	<b>Impairment</b>	<b>Net loans</b>	<b>Impairment to gross loans</b>
	<b>GEL'000</b>	<b>GEL'000</b>	<b>GEL'000</b>	<b>%</b>
<b>Loans collateralised by real estate</b>				
- not overdue	8,694	(348)	8,346	4.0%
- overdue less than 90 days	1,510	(60)	1,450	4.0%
- overdue more than 90 days and less than 1 year	1,509	(572)	937	37.9%
<b>Total loans collateralised by real estate</b>	<b>11,713</b>	<b>(980)</b>	<b>10,733</b>	<b>8.4%</b>
<b>Credit cards</b>				
- not overdue	9,229	(369)	8,860	4.0%
- overdue less than 90 days	627	(126)	501	20.1%
- overdue more than 90 days and less than 1 year	59	(20)	39	33.9%
<b>Total credit cards</b>	<b>9,915</b>	<b>(515)</b>	<b>9,400</b>	<b>5.2%</b>
<b>Auto loans</b>				
- not overdue	1,210	(48)	1,162	4.0%
- overdue less than 90 days	71	(3)	68	4.2%
- overdue more than 90 days and less than 1 year	4	(1)	3	25%
<b>Total auto loans</b>	<b>1,285</b>	<b>(52)</b>	<b>1,233</b>	<b>4.0%</b>
<b>Other consumer loans</b>				
- not overdue	11,889	(476)	11,413	4.0%
- overdue less than 90 days	1,544	(79)	1,465	5.1%
- overdue more than 90 days and less than 1 year	450	(169)	281	37.6%
- overdue more than 1 year	24	(8)	16	33.3 %
<b>Total other consumer loans</b>	<b>13,907</b>	<b>(732)</b>	<b>13,175</b>	<b>5.3%</b>
<b>Total loans to individuals</b>	<b>36,820</b>	<b>(2,279)</b>	<b>34,541</b>	<b>6.2%</b>

The Bank estimates loan impairment based on its past historical loss experience on these types of loans. The significant assumptions used by management in determining the impairment losses for loans to individuals include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months for loans collateralised by real estate, auto loans and other consumer loans.
- loans to individuals overdue for more than 180 days are allocated 100% probability of loss.

The significant assumptions used in determining the impairment losses for loans to individuals include the following loan loss rates:

- Loans collateralized by real estate – 3.7%
- Credit cards – 3.9%
- Auto loans – 3.7%
- Other consumer loans – 3.5%

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the loan impairment on loans to individuals as of 31 December 2009 would be GEL 840 thousand lower/higher (31 December 2008: GEL 1,036 thousand).

### *Analysis of collateral*

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit card overdrafts and consumer loans are not secured.

### *Analysis of movements in the impairment allowance*

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2009 are as follows:

<b>GEL'000</b>	<b>Loans collateralised by real estate</b>	<b>Auto loans</b>	<b>Credit cards</b>	<b>Other consumer loans</b>	<b>Total</b>
Loan impairment allowance as at 1 January	980	52	515	732	2,279
Net loans written off during the year	(1,033)	(59)	(1,431)	(422)	(2,945)
Loan impairment losses/(recoveries) during the year	536	49	1,225	(66)	1,744
<b>Loan impairment allowance as at 31 December</b>	<b>483</b>	<b>42</b>	<b>309</b>	<b>244</b>	<b>1,078</b>

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2008 are as follows:

<b>GEL'000</b>	<b>Loans collateralised by real estate</b>	<b>Auto loans</b>	<b>Credit cards</b>	<b>Other consumer loans</b>	<b>Total</b>
Loan impairment allowance as at 1 January	217	38	192	695	1,142
Net loans recovered/(written off) during the year	183	(4)	31	(847)	(637)
Loan impairment losses during the year	580	18	292	884	1,774
<b>Loan impairment allowance as at 31 December</b>	<b>980</b>	<b>52</b>	<b>515</b>	<b>732</b>	<b>2,279</b>

## Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within Georgia who operate in the following economic sectors:

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Trade and services	10,640	12,620
Mining/metallurgy and production	5,403	4,285
Construction	4,995	8,760
Education	2,595	-
Transportation and communication	1,720	633
Agriculture	710	1,500
Energy	308	297
Other	439	895
Loans to individuals	28,025	34,541
	<b>54,835</b>	<b>63,531</b>

## Significant credit exposures

As at 31 December 2009 and 2008 the Group did not have any borrowers or groups of related borrowers, whose loan balances exceeded 10% of loans to customers.

## Loan maturities

The maturity of the loan portfolio is presented in note 36, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

## 16 Available-for-sale assets

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
<b>Equity instruments – Unquoted</b>		
Corporate shares	54	54
	<b>54</b>	<b>54</b>

## Investment without a determinable fair value

Available-for-sale equity instruments stated at cost comprise unquoted equity securities in the financial services industry in Georgia. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair values. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows.

## 17 Held-to-maturity investments

	2009 GEL'000	2008 GEL'000
<i>Held by the Group</i>		
<b>Debt and other fixed-income instruments</b>		
Georgian Government bonds	5,596	
NBG deposit certificates	-	20
Corporate bonds	-	102
	<b>5,596</b>	<b>122</b>
<i>Pledged under sale and repurchase agreements</i>		
<b>Debt and other fixed-income instruments</b>		
NBG deposit certificates	-	2,954
	-	<b>2,954</b>

## 18 Assets held for sale

On 15 February 2010 the Group's management committed to sell property, plant and equipment of GEL 2,762 thousand of the subsidiary, Paladi Imperial, acquired in an asset purchase transaction, and repossessed assets of GEL 1,707 thousand. At 31 December 2009 the non-current assets held for sale comprised assets of GEL 4,469 thousand.

Management believes that the carrying amount of assets and liabilities of the disposal group approximately equals to its fair value less costs to sell as at 31 December 2009.

'000 GEL	Note	2009
<b>Assets classified as held for sale</b>		
Land and buildings	19	2,762
Construction in progress	20	1,707
		<b>4,469</b>

## 19 Property and equipment

GEL'000	Land and Buildings	Computers and communication equipment	Fixtures and fittings	Motor vehicles	Leasehold improvement	Other	Total
<b>Cost/revalued amount</b>							
At 1 January 2009	10,487	3,286	873	122	120	105	14,993
Acquisitions through assets purchase	2,762	-	-	-	-	-	2,762
Additions	125	771	53	9	9	29	996
Disposals	-	(191)	(42)	-	-	-	(233)
Transfer to assets held for sale	(2,762)	-	-	-	-	-	(2,762)
<b>At 31 December 2009</b>	<b>10,612</b>	<b>3,866</b>	<b>884</b>	<b>131</b>	<b>129</b>	<b>134</b>	<b>15,756</b>
<b>Depreciation</b>							
At 1 January 2009	301	1,424	307	53	45	30	2,160
Depreciation charge	216	719	116	26	1	13	1,091
Disposals	-	(162)	(41)	-	-	-	(203)
<b>At 31 December 2009</b>	<b>517</b>	<b>1,981</b>	<b>382</b>	<b>79</b>	<b>46</b>	<b>43</b>	<b>3,048</b>
<b>Carrying value</b>							
<b>At 31 December 2009</b>	<b>10,095</b>	<b>1,885</b>	<b>502</b>	<b>52</b>	<b>83</b>	<b>91</b>	<b>12,708</b>
<b>Cost/revalued amount</b>							
At 1 January 2008	6,391	2,991	496	99	414	85	10,476
Additions	4,950	354	165	23	-	20	5,512
Disposals	(854)	(59)	(82)	-	-	-	(995)
Transfers	-	-	294	-	(294)	-	-
<b>At 31 December 2008</b>	<b>10,487</b>	<b>3,286</b>	<b>873</b>	<b>122</b>	<b>120</b>	<b>105</b>	<b>14,993</b>
<b>Depreciation</b>							
At 1 January 2008	349	865	186	29	41	20	1,490
Depreciation charge	131	622	166	24	40	10	993
Disposals	(179)	(63)	(81)	-	-	-	(323)
Transfers	-	-	36	-	(36)	-	-
<b>At 31 December 2008</b>	<b>301</b>	<b>1,424</b>	<b>307</b>	<b>53</b>	<b>45</b>	<b>30</b>	<b>2,160</b>
<b>Carrying value</b>							
<b>At 31 December 2008</b>	<b>10,186</b>	<b>1,862</b>	<b>566</b>	<b>69</b>	<b>75</b>	<b>75</b>	<b>12,833</b>

Land and buildings of GEL 2,762 thousand, transferred to assets held for sale, were acquired in an asset purchase transaction, see note 38.

### Revalued assets

In July 2006, the buildings were revalued by Management based on the results of an independent appraisal performed by Giorgi Lezhava. The fair values of the revalued items were determined based on the discounted cash flow method (income approach) and method of sales comparison (comparative approach). For the estimation of the final value, the approach used was dependent on the reliability and completeness of the information and available market information of the specific buildings.



In December 2009 Management commenced the valuation of buildings based on the results of an appraisal performed by a certified valuer, employed by the Bank. The valuation was performed based on the method of sales comparison (comparative approach). The results of the valuation indicated that the fair value of buildings, as determined in July 2006, did not change significantly as at 31 December 2009.

The carrying value of buildings as of 31 December 2009, if the buildings would not have been revalued, would be GEL 7,621 thousand (2008: GEL 7,587 thousand).

## 20 Other assets

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Repossessed assets	8,804	1,776
Prepayments for property and equipment	1,208	1,748
VAT refundable	1,055	-
Prepayments	545	-
Accounts receivable	300	500
Receivables from payments processing systems	187	832
Other receivables	335	106
<b>Total other assets</b>	<b>12,434</b>	<b>4,962</b>
Allowance for impairment losses on repossessed assets	(3,700)	(533)
	<b>8,734</b>	<b>4,429</b>

### Analysis of movements in the impairment allowance

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Balance at the beginning of the year	533	-
Net charge (note 9)	3,167	533
<b>Balance at the end of the year</b>	<b>3,700</b>	<b>533</b>

The nature and carrying value of repossessed assets as at 31 December 2009 and 2008 were as follows:

	<b>Carrying value</b>	<b>Carrying value</b>
	<b>31 December 2009</b>	<b>31 December 2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Land and buildings	3,286	1,243
Construction in progress	1,818	-
	<b>5,104</b>	<b>1,243</b>

During the year, repossessed assets of GEL 1,707 thousand, representing construction in progress, were transferred to assets classified as held for sale.

Management believes that the carrying amount of repossessed assets approximately equals to their fair value less costs to sell as at 31 December 2009.

Repossessed assets with carrying value of GEL 4,082 are restricted for different time periods by the end of which the borrowers can re-purchase back the assets from the Group.

## 21 Deposits and balances from banks

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Vostro accounts	924	1,813
Term deposits	-	5,059
	<b>924</b>	<b>6,872</b>

### Concentration of deposits and balances from banks

As at 31 December 2009 and 2008 the Group has two and one banks, respectively, whose balances exceeded 10% of total deposits and balances from banks. The gross value of these balances as of 31 December 2009 and 2008 are GEL 860 thousand and GEL 5,059 thousand, respectively.

## 22 Amounts payable under repurchase agreements

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Amounts due to National Bank of Georgia	-	2,801

### Collateral

As of 31 December 2009, amounts payable under repurchase agreements were collateralised by the following securities:

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
NBG deposit certificates	-	2,954

## 23 Current accounts and deposits from customers

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Current accounts	36,732	37,745
Demand deposits	21,814	9,167
Term deposits	22,870	15,133
	<b>81,416</b>	<b>62,045</b>

As of 31 December 2009, the Group maintained customer deposit balances of GEL 7,022 thousand (31 December 2008: GEL 1,345 thousand) that serves as collateral for loans and off-balance sheet credit instruments granted by the Group.

### Concentrations of current accounts and customer deposits

As of 31 December 2009 and 2008, the Group had no customer whose balances exceeded 10% of total customer accounts and deposits.

## 24 Other borrowed funds

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Loans from European Bank for Reconstruction and Development	10,409	10,325
Loans from World Business Capital	2,529	-
Loan from Ministry of Finance	2,253	3,125
Loan from the National Bank of Georgia	-	2,100
Other	128	131
	<b>15,319</b>	<b>15,681</b>

### Breach of covenants

As at 31 December 2009 and 2008 the Group had breached the covenant requiring the Bank to earn a net profit for loans from the Ministry of Finance (MOF). Per the loan agreements with the MOF if any loan covenant is breached, MOF may declare all or any portion of the loans immediately due. As a result, these loans have been re-classified as due on demand in notes 27 and 36.

## 25 Other liabilities

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Payables for payments processing systems	984	1,268
Taxes payable, other than income tax	225	49
Accrued expenses	39	170
Other	24	-
	<b>1,272</b>	<b>1,487</b>

## 26 Equity

### Issued capital

The authorized share capital comprises 6,700,001 ordinary shares (2008: 6,700,000), with a par value of GEL 1 per share, from which 5,912,000 were issued, paid and outstanding as at 31 December 2009 (2008: 5,912,000).

### Share premium

During 2008, the Group issued 887,000 new shares with a par value of GEL 1 per share for GEL 6,499 thousand which created share premium of GEL 5,612 thousand.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Group.

### Dividends

Dividends payable are restricted to the maximum retained earnings of the Group less general reserves as recorded in the Group's statutory accounts, which are determined according to the legislation of Georgia. Subsequent to 31 December 2009 no dividends have been declared by the Group.

## **27 Risk management**

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

### **Risk management policies and procedures**

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervisory Board of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Management Board monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

### **Market risk**

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the Management Board, chaired by the General Director of the Group. Market risk limits are approved by Management Board based on recommendations of the Treasury Department.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions which are monitored on a regular basis and reviewed and approved by the Management Board.

The management of interest rates risk, component of market risk, by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios.

### ***Interest rate risk***

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.

The Group is exposed 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 also reduce or create losses in the event that unexpected movements arise.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

An analysis of sensitivity of the Group's profit and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2009 and 31 December 2008 is as follows:

	<b>2009</b>		<b>2008</b>	
	<b>Profit or loss GEL'000</b>	<b>Equity GEL'000</b>	<b>Profit or loss GEL'000</b>	<b>Equity GEL'000</b>
100 bp parallel increase	47	47	(54)	(54)
100 bp parallel decrease	(47)	(47)	54	54

### ***Currency risk***

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Group's exposure to currency risk at year end refer to note 37.

An analysis of sensitivity of the Group's profit for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 10% change in USD and Euro to Georgian Lari exchange rates is as follows:

	<b>2009</b>		<b>2008</b>	
	<b>Profit or loss GEL'000</b>	<b>Equity GEL'000</b>	<b>Profit or loss GEL'000</b>	<b>Equity GEL'000</b>
10% appreciation of USD against GEL	(709)	(709)	640	640
10% depreciation of USD against GEL	709	709	(640)	(640)
10% appreciation of EUR against GEL	(153)	(153)	429	429
10% depreciation of EUR against GEL	153	153	(429)	(429)

## **Credit risk**

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Management Board.

The Group's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, small and medium size companies and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Corporate Loans Department. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The Credit Committee reviews the loan/credit application on the basis of submission by the Corporate Loans Department. Individual transactions are also reviewed by the Group's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the Bank's Retail Loans Department through the use of scoring models and application data verification procedures.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Credit Committee with regard to credit concentration and market risks.

The Group'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. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to on balance sheet credit risk at the reporting date is as follows:

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
<b>ASSETS</b>		
Due from the National Bank of Georgia	5,333	4,511
Placements with banks	15,514	13,242
Loans to customers	54,835	63,531
Held-to-maturity investments	5,596	3,076
Other assets	1,877	1,438
<b>Total maximum exposure to on balance sheet credit risk</b>	<b>83,155</b>	<b>85,798</b>

For the analysis of concentration of credit risk in respect of loans to customers refer to note 15.

The maximum exposure to off balance sheet credit risk at the reporting date is presented in note 29.

### **Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Group are presented to senior management on a weekly basis. Decisions on the Group's liquidity management are made by the Management Board and implemented by the Treasury Department.

The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the NBG. The Group was in compliance with these ratios during the years ended 31 December 2009 and 2008.

The following tables show the undiscounted cash flows on the Group's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment. The Group's expected cash flows on these financial liabilities and unrecognized loan commitments may vary significantly from this analysis.

The position of the Group as at 31 December 2009 was as follows:

<b>GEL'000</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total gross amount</b>	<b>Carrying amount</b>
Deposits and balances from banks	924	-	-	-	-	924	924
Current accounts and deposits from customers	57,186	4,852	3,700	14,030	4,013	83,781	81,416
Other borrowed funds	2,278	1,832	24	1,805	11,114	17,053	15,319
Other liabilities	875	51	-	91	30	1,047	1,047
<b>Total</b>	<b>61,263</b>	<b>6,735</b>	<b>3,724</b>	<b>15,926</b>	<b>15,157</b>	<b>102,805</b>	<b>98,706</b>
<b>Credit related commitments</b>	<b>17,167</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,167</b>	<b>17,167</b>

The position of the Group as at 31 December 2008 was as follows:

	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total gross amount</b>	<b>Carrying amount</b>
Deposits and balances from banks	6,924					6,924	6,872
Amounts payable under repurchase agreements	2,807	-	-	-		2,807	2,801
Current accounts and deposits from customers	47,434	4,908	2,360	5,961	2,346	63,009	62,045
Other borrowed funds	3,108	2,888	-	1,785	9,785	17,566	15,681
Other liabilities	1,219	219	-	-	-	1,438	1,438
<b>Total</b>	<b>61,492</b>	<b>8,015</b>	<b>2,360</b>	<b>7,746</b>	<b>12,131</b>	<b>91,744</b>	<b>88,837</b>
<b>Credit related commitments</b>	<b>19,456</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,456</b>	<b>19,456</b>



To manage the liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and Government bonds for which there is a liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Group believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets include cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. The reported ratios of net liquid assets to deposits from customers at the reporting date and during the reporting period are as follows:

	<b>2009</b> <b>GEL'000</b>	<b>2008</b> <b>GEL'000</b>
At 31 December	22%	10%

A similar, but not identical, calculation is used to measure compliance with the liquidity limit established by the NBG.

For further information on the exposure to liquidity risk at year end refer to note 36.

## **28 Capital management**

The NBG sets and monitors capital requirements for the Bank.

The Group defines as capital those items defined by statutory regulation as capital for Banks. Under the current capital requirements set by the NBG banks have to maintain a ratio of capital to risk weighted assets (“regulatory capital ratio”) above the prescribed minimum level. As at 31 December 2009, this minimum level is 12%. The Group was in compliance with the statutory capital ratio during the years ended 31 December 2009 and 31 December 2008.

## **29 Commitments**

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
<b>Contracted amount</b>		
Undrawn credit line commitments	2,230	2,022
Undrawn overdraft facilities	4,416	7,796
Letters of credit	361	232
Guarantees	10,160	9,406
	<b>17,167</b>	<b>19,456</b>

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As of 31 December 2009 and 2008, the Group had no customers, whose balances exceed 10% of total commitments.

### **30 Operating leases**

#### **Leases as lessee**

Non-cancelable operating lease rentals are payable as follows:

	<b>2009</b>	<b>2008</b>
	<b>GEL'000</b>	<b>GEL'000</b>
Less than one year	492	386
Between one and five years	97	387
	<b>589</b>	<b>773</b>

The Group leases a number of premises under operating leases. The leases typically run for an initial period of two to five years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

During the current year GEL 516 thousand was recognized in profit or loss in respect of operating leases (2008: GEL 630 thousand).

### **31 Contingencies**

#### **Insurance**

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

## Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Group.

## Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the six subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within Georgia suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in Georgia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position of the Group, if the authorities were successful in enforcing their interpretations, could be significant.

## 32 Related party transactions

### Transactions with the the members of key management

Total remuneration included in personnel expenses (refer to note 10):

	2009 GEL'000	2008 GEL'000
Members of the Supervisory Board	339	714
Members of the Management Board	589	448
	<b>929</b>	<b>1,162</b>

The outstanding balances and average interest rates as of 31 December for transactions with the members of the Board of Directors and the Management Board are as follows:

	2009 GEL'000	Average interest rate, %	2008 GEL'000	Average interest rate, %
<b>Consolidated statement of financial position</b>				
<b>ASSETS</b>				
Loans to customers	748	17%	1,255	14%
Other assets	300	-	500	-
<b>LIABILITIES</b>				
Current accounts and deposits from customers	531	4%	370	6%

Amounts included in profit or loss in relation to other transactions with the members of the Supervisory Board and the Management Board for the year ended 31 December are as follows:

	2009 GEL'000	2008 GEL'000
<b>Profit or loss</b>		
Interest income	17	166
Interest expense	(53)	(13)

### Transactions with other related parties

The outstanding balances and the related average interest rates as of 31 December 2009 and related profit or loss amounts of transactions for the year ended 31 December 2009 with other related parties are as follows:

	Entities with significant influence over the Group		Close family members of key management personnel		Companies that are controlled or significantly influenced by key management personnel		Total GEL'000
	GEL'000	Average interest rate, %	GEL'000	Average interest rate, %	GEL'000	Average interest rate, %	
<b>Consolidated statement of financial position</b>							
<b>ASSETS</b>							
Loans to customers	-	-	244	19%	82	21%	326
<b>LIABILITIES</b>							
Current accounts and deposits from customers	-	-	446	6%	464	1%	910
Other borrowed funds	10,409	7%	-	-	-	-	10,409
<b>Profit (loss)</b>							
Interest income	-		12		14		26
Interest expense	(730)		(36)		(27)		(793)

The outstanding balances and the related average interest rates as of 31 December 2008 and related profit or loss amounts of transactions for the year ended 31 December 2008 with other related parties are as follows:

	Entities with significant influence over the Group		Close family members of key management personnel		Companies that are controlled or significantly influenced by key management personnel		Total GEL'000
	GEL'000	Average interest rate, %	GEL'000	Average interest rate, %	GEL'000	Average interest rate, %	
Consolidated statement of financial position							
<b>ASSETS</b>							
Loans to customers	-	-	-	-	325	17%	325
<b>LIABILITIES</b>							
Current accounts and deposits from customers	-	-	157	-	354	11%	511
Off balance sheet items							
Guarantees	-	-	-	-	199	-	199
Undrawn credit line and overdraft commitments	-	-	-	-	103	-	103
<b>Profit (loss)</b>							
Interest income	-		-		93		93
Interest expense	-		(3)		-		(3)

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

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows are composed of the following items:

	<b>2009</b> <b>GEL'000</b>	<b>2008</b> <b>GEL'000</b>
Cash	12,089	9,052
Due from the National Bank of Georgia – nostro accounts	3,446	3,216
Placements with banks – nostro accounts	7,796	9,949
	<b>23,331</b>	<b>22,217</b>

### **34 Fair value of financial instruments**

Management believes that the fair value of the Company's financial assets and liabilities approximates their carrying amounts.

As disclosed in note 16 the fair value of unquoted equity securities with a carrying value of GEL 54 thousand (2008: GEL 54 thousand) could not be determined.

## 35 Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2009 and 2008. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2009				2008			
	Average effective interest rate, %				Average effective interest rate, %			
	GEL	USD	EUR	Other currencies	GEL	USD	EUR	Other currencies
<b>Interest bearing assets</b>								
Due from the National Bank of Georgia	0%	0.5%	0.5%	-	-	2%	-	-
Nostro accounts with banks	1%	-	-	-	8%	2%	3%	-
Placements with banks	4%	4%	-	-	10%	-	3%	-
Loans to customers	18%	20%	20%	19%	18%	20%	18%	22%
Held-to-maturity investments	8%	-	-	-	12%	-	-	-
<b>Interest bearing liabilities</b>								
Deposits and balances from banks								
- Vostro accounts	3%	-	-	-	13%	-	5%	-
- Term deposits	-	-	-	-	15%	7%	-	-
Amounts payable under repurchase agreements	-	-	-	-	9%	-	-	-
Current accounts and deposits from customers								
- Current accounts and demand deposits	4%	5%	2%	1%	6%	5%	3%	3%
- Term deposits	12%	11%	11%	10%	13%	10%	8%	10%
Other borrowed funds	0%	6%	-	-	13%	7%	-	-

## 36 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2009.

	<b>Less than 1 month GEL'000</b>	<b>1 to 3 months GEL'000</b>	<b>3 months to 1 year GEL'000</b>	<b>1 to 5 years GEL'000</b>	<b>More than 5 years GEL'000</b>	<b>No maturity GEL'000</b>	<b>Overdue GEL'000</b>	<b>Total GEL'000</b>
<b>Assets</b>								
Cash	12,089	-	-	-	-	-	-	12,089
Due from the National Bank of Georgia	5,333	-	-	-	-	-	-	5,333
Placements with banks	15,514	-	-	-	-	-	-	15,514
Loans to customers	3,248	5,741	23,690	19,802	1,689	-	665	54,835
Available-for-sale assets	-	-	-	-	-	54	-	54
Held to maturity investments	-	-	5,596	-	-	-	-	5,596
Assets held for sale	-	-	4,469	-	-	-	-	4,469
Property and equipment	-	-	-	-	-	12,708	-	12,708
Intangible assets	-	-	-	-	-	183	-	183
Other assets	2,122	-	300	1,208	-	5,104	-	8,734
<b>Total assets</b>	<b>38,306</b>	<b>5,741</b>	<b>34,055</b>	<b>21,010</b>	<b>1,689</b>	<b>18,049</b>	<b>665</b>	<b>119,515</b>
<b>Liabilities</b>								
Deposits and balances from banks	924	-	-	-	-	-	-	924
Current accounts and deposits from customers	56,892	4,608	16,707	2,726	483	-	-	81,416
Other borrowed funds	2,278	1,734	1,445	8,252	1,610	-	-	15,319
Deferred tax liability	-	-	-	-	-	235	-	235
Other liabilities	1,100	51	91	30	-	-	-	1,272
<b>Total liabilities</b>	<b>61,194</b>	<b>6,393</b>	<b>18,243</b>	<b>11,008</b>	<b>2,093</b>	<b>235</b>	<b>-</b>	<b>99,166</b>
<b>Net position as at 31 December 2009</b>	<b>(22,888)</b>	<b>(652)</b>	<b>15,812</b>	<b>10,002</b>	<b>(404)</b>	<b>17,814</b>	<b>665</b>	<b>20,349</b>
Net position as at 31 December 2008	(17,235)	2,882	9,293	9,499	1,775	12,680	3,159	22,053

Due to the fact that substantially all the financial instruments are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

The amounts in this table represent the carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payment.

Management believes that diversification of these customer accounts by number and type of depositors, and the past experience of the Group indicates that these customer accounts provide a long term and a stable source of funding.

## 37 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2009:

	<b>GEL</b>	<b>USD</b>	<b>EUR</b>	<b>Others</b>	<b>Total</b>
	<b>GEL'000</b>	<b>GEL'000</b>	<b>GEL'000</b>	<b>GEL'000</b>	<b>GEL'000</b>
<b>Assets</b>					
Cash	6,012	3,130	2,884	63	12,089
Due from the National Bank of Georgia	3,089	1,632	607	5	5,333
Placements with banks	4,017	8,736	2,502	259	15,514
Loans to customers	22,318	28,900	3,608	9	54,835
Available-for-sale assets	54	-	-	-	54
Held to maturity investments	5,596	-	-	-	5,596
Assets held for sale	4,469	-	-	-	4,469
Property and equipment	12,708	-	-	-	12,708
Intangible assets	183	-	-	-	183
Other assets	8,062	636	36	-	8,734
<b>Total assets</b>	<b>66,508</b>	<b>43,034</b>	<b>9,637</b>	<b>336</b>	<b>119,515</b>
<b>Liabilities</b>					
Deposits and balances from banks	923	1	-	-	924
Current accounts and deposits from customers	42,329	29,299	9,515	273	81,416
Other borrowed funds	128	15,191	-	-	15,319
Deferred tax liability	235	-	-	-	235
Other liabilities	376	656	211	29	1,272
<b>Total liabilities</b>	<b>43,991</b>	<b>45,147</b>	<b>9,726</b>	<b>302</b>	<b>99,166</b>
<b>Net on balance sheet position as of 31 December 2009</b>	<b>22,517</b>	<b>(2,113)</b>	<b>(89)</b>	<b>34</b>	<b>20,349</b>
Net on sheet positions as of 31 December 2008	21,811	709	(2,614)	2,147	22,053



## **38 Acquisitions**

### **Acquisition of subsidiary**

On 29 September 2009 the Group acquired 75% of the shares in Paladi Imperial for GEL 2,512 thousand. The transaction was settled by the repayment of a problem loan. In acquiring the shares, no significant transaction costs were incurred.

The acquisition of the shares has been treated as an asset purchase as the subsidiary had ceased trading at the time of the acquisition.