

JSC BTA Bank
Financial Statements

Year ended 31 December 2009

Together with Independent Auditors' Report

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Independent auditors' report

To the Shareholders and Board of Directors of JSC BTA Bank -

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 27 in the financial statements which indicates that the Bank has negative liquidity gap through one year amounting to GEL 44,356 thousand and GEL 725 thousand in total. This condition, including significant dependence on continuing support from shareholder Bank Kazakhstan as set forth in Note 21, indicate the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern.

We also draw attention to Note 28 to the financial statements which disclose a significant concentration of the Bank's financing activities with related parties.

Statement of financial position
As at 31 December 2009
(Thousands of Georgian Lari)

	Notes	2009	2008	2007
Assets				
Cash and cash equivalents	5	16,637	18,002	25,988
Amounts due from credit institutions	6	2,579	2,707	17,918
Loans to customers	7	82,427	105,055	112,228
Investment securities:	8			
- available-for-sale		40	40	40
- held-to-maturity		-	3,472	8,190
Repossessed assets held for sale	14	8,338	725	578
Property and equipment	9	23,999	20,232	8,518
Intangible assets	10	703	742	153
Prepaid income tax		198	518	-
Investment property	13	2,194	1,337	-
Other assets	15	2,986	2,707	3,236
Total assets		140,101	155,537	176,849
Liabilities				
Amounts due to credit institutions	16	6	6,706	1,369
Amounts due to customers	17	58,321	60,710	111,762
Loans from shareholder	18	41,530	43,226	24,861
Current income tax liability		-	-	346
Deferred income tax liabilities	11	1,132	1,599	311
Other liabilities	15	494	213	250
Subordinated debt from shareholder	19	2,551	2,501	2,387
Total liabilities		104,034	114,955	141,286
Equity				
Share capital	20	30,000	30,000	30,000
Revaluation reserve for property and equipment		5,500	5,076	436
Retained earnings		567	5,506	5,127
Total equity		36,067	40,582	35,563
Total liabilities and equity		140,101	155,537	176,849

Signed and authorised for release on behalf of the Management Board of the Bank:

Kairat Kenzhegarin

General Director

Rusudan Mdinardze

Chief Accountant

13 May 2010

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

Income statement
For the year ended 31 December 2009
(Thousands of Georgian Lari)

	Notes	2009	2008
Interest income			
Loans to customers		20,733	22,068
Amounts due from credit institutions		188	1,881
Investment securities		28	567
		<u>20,949</u>	<u>24,516</u>
Interest expense			
Loans from shareholder		(5,326)	(3,337)
Amounts due to customers		(4,536)	(3,846)
Amounts due to credit institutions		(473)	(624)
Subordinated debt from shareholders		(226)	(229)
		<u>(10,561)</u>	<u>(8,036)</u>
Net interest income			
Loan impairment charge	7	<u>10,388</u>	<u>16,480</u>
		<u>(5,523)</u>	<u>(10,796)</u>
Net interest income after loan impairment charge		<u>4,865</u>	<u>5,684</u>
Non-interest income			
Net fee and commission income	22	1,542	2,723
Net gains (losses) from foreign currencies:			
- dealing		1,127	1,894
- translation differences		(191)	152
Other income	23	768	1,000
		<u>3,246</u>	<u>5,769</u>
Non-interest expenses			
Personnel expenses		(5,672)	(4,901)
Depreciation and amortisation	9, 10	(1,301)	(892)
Other operating expenses	24	(4,778)	(4,776)
Loss on disposal of property and equipment		(396)	-
Other impairment and provision charges	12	(1,478)	(48)
		<u>(13,625)</u>	<u>(10,617)</u>
Non-interest expenses			
(Loss) profit before income tax expense		<u>(5,514)</u>	<u>836</u>
Income tax benefit (expense)			
Income tax benefit (expense)	11	491	(467)
(Loss) profit for the year		<u>(5,023)</u>	<u>369</u>

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2009
(Thousands of Georgian Lari)

	<u>Note</u>	<u>2009</u>	<u>2008</u>
(Loss) profit for the year		(5,023)	369
Other comprehensive income			
Revaluation of buildings	9	598	5,471
Income tax relating to revaluation of buildings	11	(90)	(821)
Other comprehensive income for the year, net of tax		<u>508</u>	<u>4,650</u>
Total comprehensive (loss) income for the year		<u>(4,515)</u>	<u>5,019</u>

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2009
(Thousands of Georgian Lari)

	<i>Attributable to shareholders of the Bank</i>			<i>Total equity</i>
	<i>Share capital</i>	<i>Revaluation reserve for property and equipment</i>	<i>Retained earnings /</i>	
31 December 2007	30,000	436	5,127	35,563
Total comprehensive income for the year		4,650	369	5,019
Depreciation of revaluation reserve		(10)	10	-
31 December 2008	30,000	5,076	5,506	40,582
Total comprehensive (loss) income for the year		508	(5,023)	(4,515)
Depreciation of revaluation reserve		(84)	84	-
31 December 2009	30,000	5,500	567	36,067

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2009
(Thousands of Georgian Lari)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Cash flows from operating activities			
Interest received		19,257	23,228
Interest paid		(9,473)	(7,661)
Fees and commissions received		1,766	3,027
Fees and commissions paid		(307)	(325)
Realised gains less losses from dealing in foreign currencies		1,127	1,894
Other income received		768	412
Personnel expenses paid		(5,352)	(4,901)
Other operating expenses paid		(5,004)	(4,778)
Cash flows from operating activities before changes in operating assets and liabilities		<u>2,782</u>	<u>10,896</u>
<i>Net (increase) decrease in operating assets</i>			
Amounts due from credit institutions		261	15,924
Loans to customers		10,363	1,538
Other assets		(1,960)	(1,252)
<i>Net increase (decrease) in operating liabilities</i>			
Amounts due to credit institutions		(6,704)	5,303
Amounts due to customers		(4,977)	(52,891)
Other liabilities		107	(394)
Net cash flows used in operating activities before income tax		<u>(128)</u>	<u>(20,876)</u>
Income tax paid		-	(518)
Net cash used in operating activities		<u>(128)</u>	<u>(21,394)</u>
Cash flows from investing activities			
Purchase of investment securities		-	(18,817)
Proceeds from sale and redemption of investment securities		3,472	23,535
Purchase of property and equipment		(3,255)	(6,791)
Proceeds from sale of property and equipment		39	-
Net cash from (used in) investing activities		<u>256</u>	<u>(2,073)</u>
Cash flows from financing activities			
Loans from shareholder		(1,353)	15,031
Net cash (used in) from financing activities		<u>(1,353)</u>	<u>15,031</u>
Effect of exchange rates changes on cash and cash equivalents		(140)	450
Net decrease in cash and cash equivalents		<u>(1,365)</u>	<u>(7,986)</u>
Cash and cash equivalents, beginning	5	<u>18,002</u>	<u>25,988</u>
Cash and cash equivalents, ending	5	<u>16,637</u>	<u>18,002</u>

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

(Thousands of Georgian Lari)

1. Principal activities

JSC BTA Bank (the “Bank”) was formed on 27 January 2000 as a joint stock company (JSC) following the merger of two Georgian banks: JSC Export-Import Bank and JSC Discount Bank. The Bank was established under the name of the JSC Silk Road Bank. The Bank was registered on 31 January 2000 with the Didube-Chugureti Regional Court of Tbilisi, registration number 2/5-98.

On 30 May 2003 the Bank acquired the assets and liabilities of JSC EA Bank.

On 23 September 2005 based on resolution number 2/5-98 of the Didube-Chugureti Regional Court, the shareholders of the Bank changed, and it was renamed JSC BTA Silk Road Bank. In 2008 based on order number 176-r of Large Payer Tax Inspection the Bank has changed its name to JSC BTA Bank.

As at 31 December 2009 the Bank has a head office and six service centres located in Tbilisi, one service centre in Poti and one branch in Batumi (2008: head office and four service centres, located in Tbilisi, one service centre in Poti and one branch in Batumi).

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank’s registered legal address is 2 Saarbrukeni Square Tbilisi, Georgia (2008: 73a Tsereteli Avenue, Tbilisi, Georgia). The Bank is regulated by the National Bank of Georgia (the “NBG”; the central bank of Georgia) and conducts the business under license number 238.

As of 31 December, the following shareholders owned more than 5% of the outstanding shares.

Shareholder	2009 %	2008 %
JSC BTA Bank (Kazakhstan)	49.00	49.00
Silk Road Finance Group (Georgia)	23.99	23.99
ZRL Beteiligungs AG (Austria)	18.00	18.00
Interfunding Facilities Ltd. (United Kingdom)	9.00	9.00
Individuals	0.01	0.01
Total	100.00	100.00

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Georgian Lari in accordance with Georgian accounting and banking legislation and related instructions. These financial statements are based on the Bank’s books and records, as adjusted and reclassified in order to comply with IFRS.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale securities and buildings have been measured at fair value.

These financial statements are presented in thousands of Georgian Lari (“GEL”), unless otherwise indicated.

Reclassifications

Due to the significant balances of investment property and repossessed assets held for sale as of 31 December 2009, the following reclassifications have been made to 2008 balances to conform to the 2009 presentation:

- ▶ Reclassification of investment property from Other assets to Investment property;
- ▶ Reclassification of repossessed assets held for sale from Other assets to Repossessed assets held for sale;

	<i>As previously reported</i>	<i>Effect of reclassifications</i>	<i>As reclassified</i>
Investment property	-	1,337	1,337
Repossessed assets held for sale	-	725	725
Other assets	4,769	(2,062)	2,707

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Reclassifications (continued)

The following reclassification has been made to 2007 balances to conform to the 2008 and 2009 presentation:

- ▶ Reclassification of repossessed assets held for sale from Other assets to Repossessed assets held for sale;

	<u>As previously reported</u>	<u>Effect of reclassifications</u>	<u>As reclassified</u>
Repossessed assets held for sale	-	578	578
Other assets	3,814	(578)	3,236

3. Summary of significant accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and new IFRIC Interpretations effective during the year. The principal effects of these changes are as follows:

Improvements to IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. Amendments included in May 2008 "Improvements to IFRS" did not have any impact on the accounting policies, financial position or performance of the Bank.

IAS 1 Presentation of Financial Statements (Revised)

A revised IAS 1 was issued in September 2007, and became effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Bank has elected to present comprehensive income in two separate statements: income statement and statement of comprehensive income. The Bank has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the financial statements.

IFRS 7 "Financial Instruments: Disclosures"

The amendments to IFRS 7 were issued in March 2009, to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Comparative information has not been provided as permitted by the transition provisions of the amendment.

IAS 23 "Borrowing Costs" (Revised)

A revised IAS 23 Borrowing costs was issued in March 2007, and became effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank has adopted this as a prospective change. Accordingly, borrowing costs are capitalised on qualifying assets with a commencement date after 1 January 2009. No changes have been made for borrowing costs incurred to this date that have been expensed.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IAS 24 "Related party disclosures" (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. This amendment did not have any impact on the financial position or performance of the Bank.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments were issued in February 2008, and became effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments did not have any impact on the Bank.

Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations

Amendments to IFRS 2 were issued in January 2008 and became effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment did not have any impact on the financial position or performance of the Bank.

IFRS 8 "Operating Segments"

IFRS 8 became effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Bank's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. This standard is not applicable to the Bank.

IFRIC 13 "Customer Loyalty Programmes"

IFRIC Interpretation 13 was issued in June 2007 and became effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation did not have any impact on the Bank's financial statements as no such schemes currently exist.

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. This interpretation did not have any impact on the Bank's financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation did not have any impact on the Bank's financial statements.

Amendments to IFRIC 9 "Reassessment of Embedded Derivatives"

The amendments require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract.

The amendments are applicable for annual periods ending on or after 30 June 2009. This interpretation did not have any impact on the Bank's financial statements as the Bank has no embedded derivatives.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 was issued in January 2009 and becomes effective for transfers of assets from customers received on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. This interpretation did not have any impact on the financial position or performance of the Bank as the Bank has no transfers of assets from its customers.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the income statement. However, interest calculated using the effective interest method is recognised in the income statement.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the 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 to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ▶ a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- ▶ other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBG, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central bank and Government, amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the amortisation process.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Leases

i. Operating - Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

ii. Operating - Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets 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 an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Amounts due from credit institutions and loans to customers (continued)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is reclassified from other comprehensive income to the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Georgian Tax Code.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Taxation (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Construction-in-progress comprises costs directly related to construction of property and equipment. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are put into operation.

Property and equipment (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Furniture and fixtures	4-10
Computers and office equipment	4
Motor vehicles	5
Other	4-10

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 6 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Investment property

Investment property is held to earn rental income, generate capital appreciation or both. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in fair values of investment property are included in the income statement as "Net gains from revaluation of investment property".

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses arising from retirement or disposal of an investment property is recognized in the income statement in the year of retirement or disposal.

Assets classified as held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Bank measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of Georgia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits.

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued will be recognised as additional paid-in capital.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, agency fees and other fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Foreign currency translation

The financial statements are presented in Georgian Lari, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBG exchange rates at 31 December 2009 and 31 December 2008 were 1.6858 Lari and 1.667 Lari to 1 USD, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items

The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Bank's financial statements as the Bank has not entered into any such hedges.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and become effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Bank expects that this interpretation will have no impact on the Bank's financial statements.

Improvements to IFRSs

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" will have no impact on the accounting policies, financial position or performance of the Bank, except the following amendments resulting in changes to accounting policies, as described below.

- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment will have no impact on the Bank as the annual impairment test is performed before aggregation.

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Bank expects that this amendment will have no impact on the Bank's financial statements.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 9 "Financial Instruments"

In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009.

The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Bank now evaluates the impact of the adoption of new Standard and considers the initial application date.

4. Significant accounting judgements and estimates

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

- ▶ Classification of investment securities as held to maturity;
- ▶ Useful life periods for the tangible and intangible assets
- ▶ Tax accruals

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Determination of collateral value

Management monitors market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value to reflect current circumstances. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

*(Thousands of Georgian Lari)***5. Cash and cash equivalents**

	2009	2008
Cash on hand	7,029	6,745
Current accounts with the National Bank of Georgia	6,074	3,321
Current accounts with other credit institutions	3,534	7,936
Cash and cash equivalents	16,637	18,002

6. Amounts due from credit institutions

	2009	2008
Obligatory reserve with the National Bank of Georgia	2,552	2,615
Other	27	92
Amounts due from credit institutions	2,579	2,707

Credit institutions are required to maintain an interest-earning cash deposit (obligatory reserve) with the National Bank of Georgia, the amount of which depends on the level of funds attracted by the credit institution. Obligatory reserve percentage for attracted funds represents 5% (2008: 5%) both for local and foreign currencies. The Bank's ability to withdraw such deposit is restricted by the statutory legislation.

(Thousands of Georgian Lari)

7. Loans to customers

	<u>2009</u>	<u>2008</u>
Consumer loans	51,264	58,950
Corporate loans	35,213	41,630
Small business lending	4,178	8,844
Residential mortgages	4,511	7,395
Other	437	1,206
Gross loans to customers	95,603	118,025
Less – Allowance for impairment	(13,176)	(12,970)
Loans to customers	82,427	105,055

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	<u>Corporate lending 2009</u>	<u>Small business lending 2009</u>	<u>Consumer lending 2009</u>	<u>Residential mortgages 2009</u>	<u>Other 2009</u>	<u>Total 2009</u>
At 1 January 2009	5,246	967	5,985	699	73	12,970
Charge for the year	238	265	4,201	432	387	5,523
Recoveries	1,379	117	139	-	-	1,635
Amounts written off	(2,806)	(292)	(3,009)	(413)	(432)	(6,952)
At 31 December 2009	4,057	1,057	7,316	718	28	13,176
Individual impairment	2,214	906	4,737	509	-	8,366
Collective impairment	1,843	151	2,579	209	28	4,810
	4,057	1,057	7,316	718	28	13,176
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	6,051	1,781	10,459	1,209	-	19,500
	<u>Corporate lending 2008</u>	<u>Small business lending 2008</u>	<u>Consumer lending 2008</u>	<u>Residential mortgages 2008</u>	<u>Other 2008</u>	<u>Total 2008</u>
At 1 January 2008	1,263	561	1,192	212	54	3,282
Charge for the year	4,117	664	5,509	487	19	10,796
Recoveries	-	-	28	-	-	28
Amounts written off	(134)	(258)	(744)	-	-	(1,136)
At 31 December 2008	5,246	967	5,985	699	73	12,970
Individual impairment	3,637	583	3,484	385	14	8,103
Collective impairment	1,609	384	2,501	314	59	4,867
	5,246	967	5,985	699	73	12,970
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	9,188	1,100	8,534	1,064	14	19,900

(Thousands of Georgian Lari)

7. Loans to customers (continued)

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at 31 December 2009, comprised GEL 1,353 (2008 – GEL 1,452).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2009 amounts to GEL 25,767 (2008 – GEL 14,900). In accordance with the Georgian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory, and cash held in bank.
- For retail lending, mortgages over residential properties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

During the year, the Bank took possession of industrial and residential buildings with an estimated value of GEL 9,323 (2008: GEL 1,542). It is the Bank's policy to dispose repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. The repossessed properties are recorded within Other assets.

Concentration of loans to customers

As of 31 December 2009, the Bank had a concentration of loans represented by GEL 30,320 due from the ten largest third party entities (32% of gross loan portfolio) (2008 – GEL 24,175 or 20%). An allowance of GEL 2,710 (2008 – GEL 3,754) was recognised against these loans.

Loans have been extended to the following types of customers:

	2009	2008
Private companies	65,330	58,536
Individuals	30,273	59,489
	95,603	118,025

Loans are made within Georgia in the following industry sectors:

	2009	2008
Individuals	30,273	59,489
Trading enterprises	51,972	45,722
Other	13,358	12,814
	95,603	118,025

(Thousands of Georgian Lari)

8. Investment securities

As of 31 December 2009 and 2008 investment securities available-for-sale comprise corporate shares of Georgian companies:

	<i>Share %</i>	<i>2009</i>	<i>Share %</i>	<i>2008</i>
JSC Gergeti	2.57%	260	2.57%	260
Tbilisi Interbank Stock Exchange	8.33%	40	8.33%	40
		300		300
Less Allowance for impairment (Note 12)		(260)		(260)
Available-for-sale securities		40		40

Held-to-maturity securities comprise:

	<i>2009</i>				<i>2008</i>			
	<i>Annual interest to nominal</i>	<i>Maturity</i>	<i>Carrying value</i>	<i>Nominal value</i>	<i>Annual interest to nominal</i>	<i>Maturity</i>	<i>Carrying value</i>	<i>Nominal value</i>
Government debt securities	-	-	-	-	11.00%	3 Months	3,472	3,500
Held-to-maturity securities			-	-			3,472	3,500

9. Property and equipment

The movements in property and equipment were as follows:

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and office equipment</i>	<i>Motor vehicles</i>	<i>Assets under construction</i>	<i>Other</i>	<i>Total</i>
Cost / revaluation							
31 December 2008	10,154	1,261	1,038	455	5,256	3,244	21,408
Additions	-	584	195	133	3,494	120	4,526
Disposals	(80)	-	-	(105)	(11)	-	(196)
Transfers	7,150	19	718	-	(8,709)	822	-
Effect of revaluation	485	-	-	-	-	-	485
Effect of impairment	(3)	-	-	-	-	-	(3)
31 December 2009	17,706	1,864	1,951	483	30	4,186	26,220
Accumulated depreciation							
31 December 2008	-	231	337	114	-	494	1,176
Depreciation charge	114	227	256	103	-	477	1,177
Disposals	(1)	-	-	(18)	-	-	(19)
Effect of revaluation	(113)	-	-	-	-	-	(113)
31 December 2009	-	458	593	199	-	971	2,221
Net book value:							
31 December 2008	10,154	1,030	701	341	5,256	2,750	20,232
31 December 2009	17,706	1,406	1,358	284	30	3,215	23,999

(Thousands of Georgian Lari)

9. Property and equipment (continued)

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and office equipment</i>	<i>Motor vehicles</i>	<i>Assets under construction</i>	<i>Other</i>	<i>Total</i>
Cost/revaluation							
31 December 2007	1,188	642	631	231	4,067	2,166	8,925
Additions	-	620	407	224	5,758	74	7,083
Disposals	-	(1)	-	-	-	(1)	(2)
Transfers	3,564	-	-	-	(4,569)	1,005	-
Effect of revaluation	5,402	-	-	-	-	-	5,402
31 December 2008	10,154	1,261	1,038	455	5,256	3,244	21,408
Accumulated depreciation							
31 December 2007	47	78	133	34	-	115	407
Depreciation charge	24	153	204	80	-	379	840
Effect of revaluation	(71)	-	-	-	-	-	(71)
31 December 2008	-	231	337	114	-	494	1,176
Net book value:							
31 December 2007	1,141	564	498	197	4,067	2,051	8,518
31 December 2008	10,154	1,030	701	341	5,256	2,750	20,232

The Bank engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 December 2009. If the buildings were measured using the cost model, the total carrying amounts of property and equipment would be as follows:

	2009	2008
Cost	19,690	15,360
Accumulated depreciation	(2,418)	(1,222)
Net carrying amount	17,272	14,138

10. Intangible assets

The movements in intangible assets were as follows:

	<i>Licenses</i>	<i>Computer software</i>	<i>Total</i>
Cost			
31 December 2008	822	34	856
Additions	35	50	85
31 December 2009	857	84	941
Accumulated amortization			
31 December 2008	100	14	114
Amortisation charge	118	6	124
31 December 2009	218	20	238
Net book value:			
31 December 2008	722	20	742
31 December 2009	639	64	703

(Thousands of Georgian Lari)

10. Intangible assets (continued)

	<i>Licenses</i>	<i>Computer software</i>	<i>Total</i>
Cost			
31 December 2007	181	34	215
Additions	641	-	641
31 December 2008	822	34	856
Accumulated amortization			
31 December 2007	57	5	62
Amortisation charge	43	9	52
31 December 2008	100	14	114
Net book value:			
31 December 2007	124	29	153
31 December 2008	722	20	742

11. Taxation

The corporate income tax expense comprises:

	<i>2009</i>	<i>2008</i>
Current tax expense	-	-
Deferred tax expense – origination and reversal of temporary differences	(467)	1,288
Less: deferred tax expense recognized directly in equity	(24)	(821)
Income tax (benefit) expense	(491)	467

Georgian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 15% for 2009 and 2008.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<i>2009</i>	<i>2008</i>
(Loss) profit before tax	(5,514)	836
Statutory tax rate	15%	15%
Theoretical income tax (benefit) expense at the statutory rate	(827)	125
Non-deductible expenses	93	342
Impairment of investment property	204	-
Income recognised for tax purposes only	39	-
Income tax (benefit) expense	(491)	467

Income tax liabilities comprise:

	<i>2009</i>	<i>2008</i>
Current income tax liability	-	-
Deferred income tax liabilities	1,132	1,599
Income tax liabilities	1,132	1,599

(Thousands of Georgian Lari)

11. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			
	<i>2007</i>	<i>In the income statement</i>	<i>Directly in equity</i>	<i>2008</i>	<i>In the income statement</i>	<i>Directly in equity</i>	<i>2009</i>
Tax effect of deductible temporary differences:							
Property and equipment	513	(513)	-	-	-	-	-
Tax losses carried forward	-	168	-	168	1,197	-	1,365
Other assets	22	(22)	-	-	-	-	-
Other liabilities	-	6	-	6	10	-	16
Deferred tax assets	535	(295)	-	240	2,135	-	2,375
Tax effect of taxable temporary differences:							
Property and equipment and intangible assets	(716)	(218)	(821)	(1,755)	(1,728)	(24)	(3,507)
Allowance for loan impairment	(68)	68	-	-	-	-	-
Interest income on loans to customers	-	(84)	-	(84)	84	-	-
Amounts due to customers	(62)	62	-	-	-	-	-
Deferred tax liabilities	(846)	(172)	(821)	(1,839)	(1,644)	(24)	(3,507)
Deferred tax liabilities	(311)	(467)	(821)	(1,599)	491	(24)	(1,132)

As of 31 December 2009 the Bank has available GEL 8,949 of tax loss carry forwards which will expire in 2014 if not utilised.

12. Other impairment allowances and provisions

The movements in other impairment allowances and provisions were as follows:

	<i>Investment securities held- to-maturity</i>	<i>Other assets</i>	<i>Guarantees and commitments</i>	<i>Unused vacations</i>	<i>Total</i>
31 December 2007	260	-	-	-	260
Charge		48			48
Write-offs		(48)			(48)
31 December 2008	260	-	-	-	260
Charge	-	1,252	117	109	1,478
Write-offs	-	(267)			(267)
31 December 2009	260	985	117	109	1,471

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for unused vacations, guarantees and commitments are recorded in liabilities.

(Thousands of Georgian Lari)

13. Investment property

	<u>2009</u>	<u>2008</u>
At 1 January	1,337	-
Purchases	1,294	721
Net change in fair value through profit and loss	(437)	616
At 31 December	<u>2,194</u>	<u>1,337</u>

Investment properties are stated at fair value, which has been determined based on the valuation performed by Baker Tilly Georgia, an accredited independent appraiser, as at 31 December 2009. Baker Tilly Georgia is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

Rental income arising from investment properties comprise:

	<u>2009</u>	<u>2008</u>
Rental income	144	45

14. Repossessed assets held for sale

Repossessed assets held for sale comprise land, buildings and motor vehicles located in Tbilisi and other regions of Georgia. The Bank has an intention to sell the assets and it is anticipated that the transaction will take place in 2010.

The fair value and carrying amount of repossessed assets are as follows:

	<u>2009</u>		<u>2008</u>	
	<i>Fair Value</i>	<i>Carrying amount</i>	<i>Fair Value</i>	<i>Carrying amount</i>
Land	2,976	2,698	-	-
Buildings	7,507	6,440	725	725
Vehicles	185	185	-	-
Repossessed assets held for sale	10,668	9,323	725	725
Allowance for impairment (Note 12)		(985)		-
Net repossessed assets held for sale		<u>8,338</u>		<u>725</u>

As of 31 December 2009 the Bank performed valuation of repossessed assets. For certain individual properties fair value was less than carrying amount. Consequently such assets were recognized at fair value. Impairment loss of GEL 985 was recognised as of 31 December 2009 (2008: GEL 0).

15. Other assets and liabilities

Other assets comprise:

	<u>2009</u>	<u>2008</u>
Prepayments	2,191	1,895
Receivables from other services	325	706
Derivative assets	214	-
Prepaid taxes other than income tax	256	106
Other assets	<u>2,986</u>	<u>2,707</u>

(Thousands of Georgian Lari)

15. Other assets and liabilities (continued)

Other liabilities comprise:

	<u>2009</u>	<u>2008</u>
Payable for audit services	113	113
Other payables	103	-
Provisions for unused vacations	109	-
Provisions for guarantees and commitments	117	-
Taxes payable	52	85
Derivative liabilities	-	15
Other liabilities	<u>494</u>	<u>213</u>

The Bank enters into derivative financial instruments, primarily currency swaps, for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their principal amounts. The principal amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The principal amounts indicate the volume of transactions outstanding at year end and are indicative of neither the market risk nor the credit risk.

	<u>2009</u>			<u>2008</u>		
	<u>Principal</u>	<u>Fair values</u>		<u>Principal</u>	<u>Fair value</u>	
		<u>Asset</u>	<u>Liability</u>		<u>Asset</u>	<u>Liability</u>
Foreign exchange contracts						
Currency swaps	5,351	214	-	3,547	-	15
Total derivative assets		<u>214</u>			<u>-</u>	<u>15</u>

16. Amounts due to credit institutions

	<u>2009</u>	<u>2008</u>
Current accounts	6	4
Time deposits	-	6,702
Amounts due to credit institutions	<u>6</u>	<u>6,706</u>

17. Amounts due to customers

	<u>2009</u>	<u>2008</u>
Current accounts	29,615	28,224
Time deposits	28,706	32,486
Amounts due to customers	<u>58,321</u>	<u>60,710</u>

As at 31 December 2009 amounts due to customers of GEL 44,284 (76%) were due to ten largest third party customers of the Bank (2008 - GEL 46,964 (78 %)).

Amounts due to customers include accounts with the following types of customers:

	<u>2009</u>	<u>2008</u>
Private enterprises	46,022	53,386
Individuals	7,090	7,264
State and budgetary organisations	5,209	60
Amounts due to customers	<u>58,321</u>	<u>60,710</u>

(Thousands of Georgian Lari)

17. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	2009	2008
Trade	24,604	31,534
Hotels	14,343	14,488
Real estate construction	878	218
Transport and communication	152	150
Energy	34	22
Individuals	7,090	7,264
Other	11,220	7,034
Amounts due to customers	58,321	60,710

18. Loans from shareholder

Loans received from the shareholder, BTA Bank, are unsecured and as at 31 December 2009 comprise:

<i>Currency</i>	<i>Amount</i>		<i>Maturity</i>		<i>Interest rate</i>	
	<i>(in thousands of GEL)</i>				<i>per annum</i>	
<i>denomination</i>	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
USD	8,819	8,714	18-Feb-10	05-Mar-09	18.00%	14.00%
USD	8,731	8,699	27-Aug-10	28-May-09	18.00%	14.00%
USD	8,119	8,090	28-May-10	27-Jan-09	18.00%	13.00%
USD	7,271	8,076	25-Jan-10	27-Nov-09	18.00%	14.00%
USD	3,703	4,384	14-Nov-14	14-Nov-14	10.00%	10.00%
USD	3,437	3,525	05-Mar-10	06-Aug-09	18.00%	14.00%
USD	1,450	1,738	08-Jan-10	11-Sep-09	18.00%	14.00%
	41,530	43,226				

Except for the outstanding loan of GEL 3,703 as of 31 December 2009 which matures on 14 November 2014, refer to Note 30 for the subsequent approval of the shareholder to reduce the annual interest rates and extension of maturity for up to 4 (four) years of loans outstanding as of 31 December 2009.

19. Subordinated debt from shareholder

The Bank received US dollar-denominated subordinated debt from JSC BTA Bank, shareholder, on 14 March 2006. As at 31 December 2009 the balance comprises GEL 2,551 (2008 – GEL 2,501). The loan principal is to be paid at maturity on 14 March 2013. The interest rate is 9% per annum, and is paid quarterly. The loan is subordinated to all other creditors of the Bank.

20. Equity

Share capital

The number of authorised ordinary shares is 30,000 (2008: 30,000) with a nominal value per share of GEL 1. All authorised shares have been issued and fully paid.

The share capital of the Bank was contributed by the shareholders in Georgian Lari and they are entitled to dividends and any capital distribution in Georgian Lari.

Dividends

No dividends were declared nor paid in 2009 and 2008.

(Thousands of Georgian Lari)

21. Commitments and contingencies

Operating environment

As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside of the country, and undeveloped debt and equity markets). However over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In management's view, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The military conflict in August 2008 involving Georgia, the Russian Federation and South Ossetia and global financial crisis have resulted in capital markets instability, deterioration of liquidity in the banking sector, and tighter credit conditions within Georgia. While the Georgian Government has introduced a range of stabilization measures aimed at providing liquidity to Georgian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank and its counterparties, which could affect the Bank's financial position, results of operations and business prospects.

Also, factors including reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Bank's borrowers' ability to repay the amounts due to the Bank. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

Going Concern

As of 31 December 2009 the Bank has a significant negative liquidity gap for the period up to one year from the reporting date as disclosed in Note 27. Further, as shown in Note 28 the Bank has significant concentration of financing activities with the shareholder, BTA Kazakhstan, and is highly dependent on its support for funding. Of the negative liquidity gap through one year of GEL 44,356 the loans received from the shareholder amounts to GEL 37,827. On 26 March 2010 the maturity date of the loans from the shareholder of GEL 37,827 were extended up to 4 years.

Management believe that it will be able to improve liquidity with financial assistance from shareholder and as such be able to continue to meet its obligations as they become due and payable and therefore, this financial statements were prepared on going concern basis.

However, there is a material uncertainty related to the ability of shareholder BTA Kazakhstan to provide continuing support to the Bank, which may cast significant doubt on the Bank's ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Legal

In the ordinary course of business, the Bank 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 condition or the results of future operations of the Bank.

Taxation

Georgian tax, currency and customs legislation are subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and central authorities. Recent events within Georgia suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2009 management of the Bank believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

*(Thousands of Georgian Lari)***21. Commitments and contingencies (continued)****Commitments and contingencies**

As of 31 December the Bank's financial commitments and contingencies comprised the following:

	2009	2008
Credit related commitments		
Undrawn loan commitments	2,862	13,292
Guarantees	15,150	16,158
	18,012	29,450
Operating lease commitments		
Not later than 1 year	796	588
Later than 1 year but not later than 5 years	1,880	1,649
Later than 5 years	1,049	970
	3,725	3,207
Less – Cash held as security against letters of credit and guarantees	(9,113)	(8,897)
Commitments and contingencies	12,624	23,760

22. Net fee and commission income

	2009	2008
Guarantees issued	508	426
Settlements operations	480	897
Cash collection	45	47
Currency conversion operations	40	81
Custodian operations	20	18
Agency fee	-	629
Other	755	950
Fee and commission income	1,848	3,048
Settlements operations	112	71
Cash operations	14	47
Currency conversion operations	1	18
Guarantees received	12	11
Custodian service	5	1
Other	162	177
Fee and commission expense	306	325
Net fee and commission income	1,542	2,723

23. Other income

	2009	2008
Refunded court fees	237	26
Gain on remeasurement of financial assets	214	-
Rental income	144	45
Fines and penalties	106	7
Gains from sale of repossessed asset	59	253
Fee received from insurance company	4	52
Gains on revaluation of investment property	-	616
Other	4	1
Total other income	768	1,000

(Thousands of Georgian Lari)

24. Other operating expenses

	<u>2009</u>	<u>2008</u>
Occupancy and rent	964	804
Marketing and advertising	769	876
Legal and consultancy	567	502
Communications	344	270
Utility expenses	324	245
Operating taxes	301	651
Office supplies	281	243
Security	279	232
Penalties incurred	186	3
Expenses related to production of plastic cards	153	146
Business travel and related	62	92
Repair and maintenance of property and equipment	61	130
Entertainment	48	98
Insurance	28	22
Personnel training	10	35
Other	401	427
Other operating expenses	<u>4,778</u>	<u>4,776</u>

25. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management Unit

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Risk Controlling Unit

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

(Thousands of Georgian Lari)

25. Risk management (continued)

Introduction (continued)

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the supervisory board.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

(Thousands of Georgian Lari)

25. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Maximum exposure 2009	Maximum exposure 2008
Cash and cash equivalents (excluding cash on hand)	5	9,608	11,257
Amounts due from credit institutions	6	2,579	2,707
Loans to customers	7	82,427	105,055
Investment securities available-for-sale	8	40	40
Investment securities held-to-maturity	8	-	3,472
		94,654	122,531
Financial commitments and contingencies	21	8,899	20,553
Total credit risk exposure		103,553	143,084

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 7.

(Thousands of Georgian Lari)

25. Risk management (continued)**Credit risk (continued)***Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Bank's credit rating system.

	Notes	Not impaired				Total 2009
		High grade 2009	Standard grade 2009	Sub- standard grade 2009	Individually impaired 2009	
Cash and cash equivalents (excluding cash on hand)	5	9,608				9,608
Amounts due from credit institutions	6	2,579				2,579
Loans to customers	7					
Corporate lending		25,594	2,188	1,380	6,051	35,213
Small business lending		1,349	456	592	1,781	4,178
Consumer lending		36,500	1,879	2,426	10,459	51,264
Residential mortgages		2,473	290	539	1,209	4,511
Other		437	-	-	-	437
		66,353	4,813	4,937	19,500	95,603
Total		78,540	4,813	4,937	19,500	107,790

	Notes	Not impaired				Total 2008
		High grade 2008	Standard grade 2008	Sub- standard grade 2008	Individually impaired 2008	
Cash and cash equivalents (excluding cash on hand)	5	11,257	-	-	-	11,257
Amounts due from credit institutions	6	2,707	-	-	-	2,707
Loans to customers	7					
Corporate lending		29,168	677	2,597	9,188	41,630
Small business lending		6,217	710	817	1,100	8,844
Consumer lending		35,591	4,700	10,125	8,534	58,950
Residential mortgages		4,225	350	1,756	1,064	7,395
Other		1,192	-	-	14	1,206
		76,393	6,437	15,295	19,900	118,025
Investments held-to-maturity	8	3,472	-	-	-	3,472
Total		93,829	6,437	15,295	19,900	135,461

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. The attributable risk ratings are assessed and updated regularly.

The credit risk assessment policy for non-past due and individually non-impaired financial assets has been determined by the Bank as follows:

- ▶ A financial asset with average overdue days of less than or equal to 10 days is assessed as a financial asset with High Grade;
- ▶ A financial asset with average overdue days of more than 10 days and less than or equal to 20 days is assessed as a financial asset with Standard Grade;
- ▶ A financial asset with average overdue days of more than 20 days and less than or equal to 90 days is assessed as a financial asset with Substandard Grade.

(Thousands of Georgian Lari)

25. Risk management (continued)**Credit risk (continued)***Aging analysis of unimpaired loans per class of financial assets*

	Less than 30 days 2009	31 to 60 days 2009	61 to 90 days 2009	More than 90 days 2009	Total 2009
Amounts due from credit institutions	2,579				2,579
Loans to customers, net					
Corporate lending	26,464	1,693	1,005	-	29,162
Small business lending	1,687	208	502	-	2,397
Consumer lending	38,129	751	1,916	9	40,805
Residential mortgages	2,910	323	69	-	3,302
Other	436	-	-	-	436
	<u>69,626</u>	<u>2,975</u>	<u>3,492</u>	<u>9</u>	<u>76,102</u>
Total	<u>72,205</u>	<u>2,975</u>	<u>3,492</u>	<u>9</u>	<u>78,681</u>
	Less than 30 days 2008	31 to 60 days 2008	61 to 90 days 2008	More than 90 days 2008	Total 2008
Amounts due from credit institutions	2,707	-	-	-	2,707
Loans to customers					
Corporate lending	25,005	1,727	2,782	2,928	32,442
Small business lending	6,147	671	167	759	7,744
Consumer lending	34,612	5,335	2,380	8,089	50,416
Residential mortgages	4,154	570	153	1,454	6,331
Other	1,192	-	-	-	1,192
	<u>71,110</u>	<u>8,303</u>	<u>5,482</u>	<u>13,230</u>	<u>98,125</u>
Total	<u>73,817</u>	<u>8,303</u>	<u>5,482</u>	<u>13,230</u>	<u>100,832</u>

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

(Thousands of Georgian Lari)

25. Risk management (continued)**Credit risk (continued)**

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2009				2008			
	Georgia	OECD	CIS and other foreign banks	Total	Georgia	OECD	CIS and other foreign banks	Total
Assets:								
Cash and cash equivalents	13,607	-	3,030	16,637	12,883	-	5,119	18,002
Amounts due from credit institutions	2,579	-	-	2,579	2,707	-	-	2,707
Loans to customers	82,427	-	-	82,427	105,055	-	-	105,055
Investment securities:								
- available-for-sale	40	-	-	40	40	-	-	40
- held-to-maturity	-	-	-	-	3,472	-	-	3,472
Tax assets	198	-	-	198	518	-	-	518
Other assets	2,772	-	214	2,986	4,138	-	631	4,769
	101,623	-	3,244	104,867	128,813	-	5,750	134,563
Liabilities:								
Amounts due to credit institutions	6	-	-	6	6,706	-	-	6,706
Amounts due to customers	58,321	-	-	58,321	60,710	-	-	60,710
Loans from shareholder	-	-	41,530	41,530	-	-	43,226	43,226
Deferred income tax liabilities	1,473	-	-	1,473	1,599	-	-	1,599
Other liabilities	494	-	-	494	213	-	-	213
Subordinated debt from shareholder	-	-	2,551	2,551	-	-	2,501	2,501
	60,294	-	44,081	104,375	69,228	-	45,727	114,955
Net assets / (liabilities)	41,329	-	(40,837)	492	59,585	-	(39,977)	19,608

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBG. As at 31 December, these ratios were as follows:

	<u>2009, %</u>	<u>2008, %</u>
"Average Liquidity Ratio" (Liquid assets/ Liabilities)>20% (2008 - 20%)	22.54	23.65

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25. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2009					
Amounts due to credit institutions	6	-	-	-	6
Amounts due to customers	50,331	7,868	767	756	59,722
Loans from shareholders	21,369	18,451	5,524	-	45,344
Subordinate debt from shareholders	-	-	3,290	-	3,290
Total undiscounted financial liabilities	71,706	26,319	9,581	756	108,362

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2008					
Amounts due to credit institutions	6,685	-	-	-	6,685
Amounts due to customers	35,232	21,574	6,039	-	62,845
Loans from shareholder	16,117	22,378	-	6,995	45,490
Subordinate debt from shareholders	-	-	3,459	-	3,459
Total undiscounted financial liabilities	58,034	43,952	9,498	6,995	118,479

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	Less than 3 months	3 to 12 months	1 to 5 Years	Over 5 years	Total
2009	3,188	1,809	4,450	10,278	19,725
2008	5,125	6,593	500	8,334	20,552

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Possible market risk is managed by estimation of potential loss and using limitation system.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2009 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in

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income statement or equity, while a positive amount reflects a net potential increase.

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25. Risk management (continued)**Market risk (continued)**

Currency	Change in currency rate in % 2009	Effect on profit before tax 2009	Change in currency rate in % 2008	Effect on profit before tax 2008
USD	16.20%	(928)	11.20%	(666)
EUR	13.20%	(97)	19.30%	(59)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

26. Fair values of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets				
Investment securities – available-for-sale			40	40
Other assets – derivative instrument	-	214	-	214
	<u>-</u>	<u>214</u>	<u>40</u>	<u>254</u>

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2009	Fair value 2009	Unrecognised gain/(loss) 2009	Carrying value 2008	Fair value 2008	Unrecognised gain/(loss) 2008
Financial assets						
Cash and cash equivalents	16,637	16,637	-	18,002	18,002	-
Amounts due from credit institutions	2,579	2,579	-	2,707	2,707	-
Loans to customers	82,427	82,427	-	105,055	105,055	-
Investment securities: - held-to-maturity	-	-	-	3,472	3,472	-
Financial liabilities						
Amounts due to credit institutions	6	6	-	6,706	6,706	-
Amounts due to customers	58,321	58,321	-	60,710	60,710	-
Loans from shareholder	41,530	40,607	(923)	43,226	43,226	-
Subordinated debt from shareholder	2,551	2,011	(540)	2,501	2,261	(240)
Total unrecognised change in unrealised fair value			(1,463)			(240)

(Thousands of Georgian Lari)

26. Fair values of financial instruments (continued)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

27. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 25 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2009			2008		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	16,637		16,637	18,002	-	18,002
Amounts due from credit institutions	2,579		2,579	2,707	-	2,707
Loans to customers	31,018	51,409	82,427	36,882	68,173	105,055
Investment securities:						
- available-for-sale	40	-	40	40	-	40
- held-to-maturity	-	-	-	3,472	-	3,472
Total	50,274	51,409	101,683	61,103	68,173	129,276
Amounts due to credit institutions	6		6	6,706		6,706
Amounts due to customers	56,797	1,524	58,321	55,471	5,239	60,710
Loans from shareholder	37,827	3,703	41,530	38,842	4,384	43,226
Subordinated debt from shareholder	-	2,551	2,551		2,501	2,501
Total	94,630	7,778	102,408	101,019	12,124	113,143
Net	(44,356)	43,631	(725)	(39,916)	56,049	16,133

The Bank's ability to cover the liabilities as they come due is primarily dependent on ability to realize equivalent amount of assets. Long-term loans are generally not available in Georgia except for programs set up by international financial institutions. The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due on demand in the tables above.

As of 31 December 2009 the Bank had negative liquidity gap through one year in the amount of GEL 44,356. GEL 37,827 represents the loans obtained from its controlling shareholder which is included under one year maturity. The Bank has subsequently obtained approval from the shareholder for the reduction in annual interest rate and for the extension of maturity up to four (4) years. See Note 30.

The financial statements have been prepared on a going concern basis with a significant assumption that the Bank will obtain shareholder financial support.

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28. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2009		2008	
	Shareholders	Entities under the same Group	Shareholders	Entities under the same Group
Nostro accounts at December 31	180	-	3,638	-
Interest income on Nostro accounts	-	-	64	-
Receivables	-	-	631	-
Deposits at 1 January	-	-	-	5,788
Deposits received during the year	-	22	-	-
Deposits repaid during the year	-	22	-	5,788
Other movements	-	-	-	-
Deposits at 31 December	-	-	-	-
Current accounts at 31 December	-	-	-	-
Interest expense on deposits	-	-	-	13
Loans payable at 1 January	43,226	-	23,533	-
Loans received during the year	250,090	-	141,815	-
Loans repaid during the year	(251,786)	-	(122,122)	-
Loans payable at 31 December	41,530	-	43,226	-
Interest expense on loans	5,142	-	2,569	-
Subordinated loans payable at 1 January	2,501	-	2,387	-
Subordinated loans received during the year	50	-	114	-
Subordinated loans repaid during the year	-	-	-	-
Subordinated loans payable at 31 December	2,551	-	2,501	-
Interest expense on subordinated loan	228	-	225	-
Commitments and guarantees issued	-	-	-	-
Fee and commission income	-	-	-	-
Fee and commission expense	-	-	-	-

Loans to key management personnel and related income comprise:

	2009	2008
Loans outstanding at 1 January, gross	282	200
Loans issued during the year	386	423
Loan repayments during the year	(204)	(341)
Loans outstanding at 31 December, net	464	282
Interest income on loans	40	50

Compensation of key management personnel was comprised of the following:

	2009	2008
Salaries and other short-term benefits	589	485
Total key management compensation	589	485

(Thousands of Georgian Lari)

29. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank. The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 12% (2008 - 12%) of risk-weighted assets. As of 31 December 2009 and 2008, the Bank's capital adequacy ratio on this basis was as follows:

	<u>2009</u>	<u>2008</u>
Core capital	34,802	34,385
Supplementary capital	(2,293)	4,056
Total regulatory capital	<u>32,509</u>	<u>38,441</u>
Risk-weighted assets	<u>144,256</u>	<u>225,798</u>
Capital adequacy ratio	<u>22.54%</u>	<u>17.02%</u>

Regulatory capital consists of Tier 1 capital, which comprises share capital and retained earnings including current year profit. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG. The other component of regulatory capital is Tier 2 capital, which includes subordinated debt and revaluation reserve.

30. Event after the reporting period

Based on the shareholders' meeting on 26 March 2010, BTA Kazakhstan, a shareholder, has approved the restructuring of its loan given to the Bank of GEL 37,827. The new terms include a reduction of interest rate from 18% to 12% per annum and prolongation of maturity up to 4 years.

On 8 April 2010 Silk Road Finance Group (Georgia) acquired additional 27% of the total shares of the Bank from ZRL Beteiligungs AG and Interfunding Facilities Ltd. and became the controlling shareholder of the Bank with 51% of total shares issues thereafter. The change in share ownership has been duly registered by the Bank's internal depository.