PROCREDIT BANK GROUP

Consolidated Financial Statements
For the Year Ended 31 December 2008

PROCREDIT BANK GROUP

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2 and 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Closed Joint Stock Company ProCredit Bank (the "Bank") and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2008, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

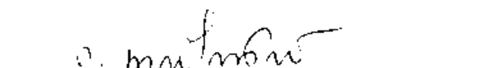
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Georgia;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2008 were authorized for issue on 2 March 2009 by the Management Board.

On behalf of the Management Board:

General Director
Philipp Pott

2 March 2009



Chief Accountant
Irina Kilasonia

2 March 2009

Deloitte

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Company ProCredit Bank:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Closed Joint Stock Company ProCredit Bank (the "Bank") and its subsidiaries (the "Group), which comprise the consolidated balance sheet as at 31 December 2008, the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and the results of its operations 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 24 to the consolidated financial statements, which describes recent volatility in global and Georgian financial markets.

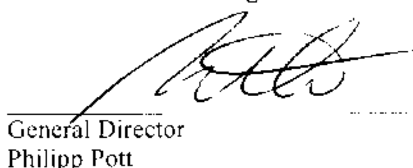
2 March 2009
Tbilisi, Georgia

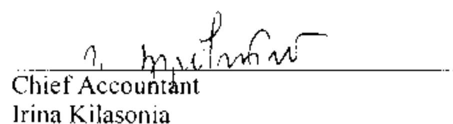
PROCREDIT BANK GROUP

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(in thousands of Georgian Lari)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	5, 26	96,280	76,671
Interest expense	5, 26	(37,295)	(28,038)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		58,985	48,633
Provision for impairment losses on interest bearing assets	6, 26	(6,589)	(3,911)
NET INTEREST INCOME		52,396	44,722
Net gain on foreign exchange operations	7	6,973	3,540
Fee and commission income	8, 26	6,679	6,410
Fee and commission expense	8, 26	(2,597)	(2,242)
Provision/(recovery of provision) for impairment losses on other transactions	6	273	(416)
Other income	9	3,650	1,835
NET NON-INTEREST INCOME		14,978	9,127
OPERATING INCOME		67,374	53,849
OPERATING EXPENSES	10, 26	(51,221)	(40,956)
PROFIT BEFORE INCOME TAX		16,153	12,893
Income tax expense	11	(2,575)	(2,687)
NET PROFIT		13,578	10,206

On behalf of the Management Board:





General Director
Philipp Pott

2 March 2009
Tbilisi, Georgia

Chief Accountant
Irina Kilasonia

2 March 2009
Tbilisi, Georgia

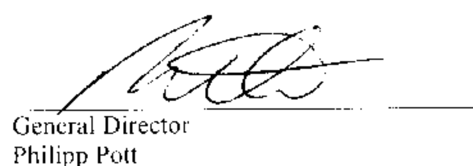
The notes on pages 9-52 form an integral part of these consolidated financial statements.

PROCREDIT BANK GROUP

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008
(in thousands of Georgian Lari)

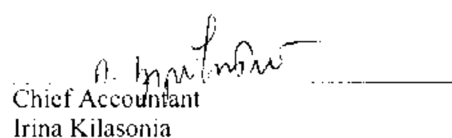
	Notes	31 December 2008	31 December 2007
ASSETS:			
Cash and balances with the National Bank of Georgia	12	78,556	59,252
Due from banks	13, 26	52,912	36,578
Loans to customers	14, 26	505,455	370,315
Investments available-for-sale	15	435	145
Investments held to maturity	16	-	54,100
Property, plant and equipment	17	42,588	24,235
Current income tax assets	11	30	-
Deferred income tax assets	11	-	198
Other assets	18	5,021	5,492
TOTAL ASSETS		684,997	550,315
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	19, 26	243,245	169,002
Customer accounts	20, 26	293,596	276,168
Other borrowed funds	21	8,880	6,532
Current income tax liabilities	11	-	821
Deferred income tax liabilities	11	330	-
Dividends payable	24	86	6,485
Other liabilities	22	4,655	3,625
Subordinated debt	23	41,420	14,693
Total liabilities		592,212	477,326
EQUITY:			
Share capital	24	58,850	48,932
Share premium	24	11,593	6,293
Retained earnings		22,342	17,764
Total equity		92,785	72,989
TOTAL LIABILITIES AND EQUITY		684,997	550,315

On behalf of the Management Board:



General Director
Philipp Pott

2 March 2009
Tbilisi, Georgia



Chief Accountant
Irina Kilasonia

2 March 2009
Tbilisi, Georgia

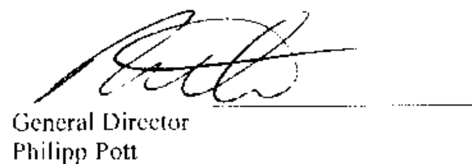
The notes on pages 9-52 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of Georgian Lari)

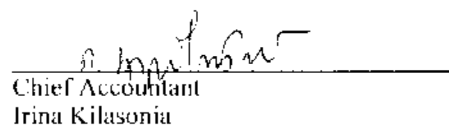
	Note	Share capital	Share Premium	Retained earnings	Total Equity
31 December 2006		**48,932**	**6,293**	**14,558**	**69,783**
Dividends declared		-	-	(7,000)	(7,000)
Net profit		-	-	10,206	10,206
31 December 2007		**48,932**	**6,293**	**17,764**	**72,989**
Share capital increase of ordinary shares		9,918	5,300	-	15,218
Dividends declared		-	-	(9,000)	(9,000)
Net profit		-	-	13,578	13,578
31 December 2008		**58,850**	**11,593**	**22,342**	**92,785**

On behalf of the Management Board:



General Director
Philipp Pott

2 March 2009
Tbilisi, Georgia



Chief Accountant
Irina Kilasonia

2 March 2009
Tbilisi, Georgia

The notes on pages 9-52 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of Georgian Lari)

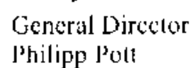
	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		93,153	75,298
Interest paid		(35,029)	(26,931)
Fees and commissions received		6,679	6,410
Fees and commissions paid		(2,597)	(2,242)
Realized gain on foreign exchange operations		5,223	4,972
Other operating income received		3,623	1,959
Operating expenses paid		(48,084)	(36,717)
Cash flows from operating activities before changes in operating assets and liabilities		22,968	22,749
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of Georgia		14,565	(1,341)
Due from banks		1,996	1,272
Loans to customers		(137,475)	(67,192)
Other assets		564	365
Increase in operating liabilities			
Due to banks		73,494	56,833
Customer accounts		16,698	52,830
Other borrowed funds		2,344	2,427
Other liabilities		1,046	1,775
Cash (outflow)/inflow from operating activities before taxation		(3,800)	69,718
Income tax paid		(2,898)	(3,049)
Net cash (outflow)/inflow from operating activities		(6,698)	66,669
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and intangible assets		(26,622)	(14,218)
Proceeds on sale of property, plant and equipment		3,758	5,528
Proceeds from/(purchase) of investments held to maturity		54,100	(35,176)
Purchase of investments available-for-sale		(290)	(3)
Net cash inflow/(outflow) from investing activities		30,946	(43,869)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of Georgian Lari)

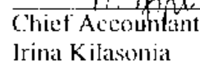
	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of share capital		15,218	-
Dividends paid		(15,399)	(515)
Repayment of debt securities issued		-	(5,000)
Subordinated debt		25, 953	(884)
Net cash inflow/(outflow) from financing activities		25,772	(6,399)
Effect of changes in foreign exchange rate on cash and cash equivalents		1,750	(1,432)
NET INCREASE IN CASH AND CASH EQUIVALENTS		51,770	14,969
CASH AND CASH EQUIVALENTS, beginning of the year	11	59,233	44,264
CASH AND CASH EQUIVALENTS, end of the year	11	111,003	59,233

On behalf of the Management Board:



General Director
Philipp Pott

2 March 2009
Tbilisi, Georgia



Chief Accountant
Irina Kilasonia

2 March 2009
Tbilisi, Georgia

The notes on pages 9-52 form an integral part of these consolidated financial statements

1. ORGANISATION

JSC ProCredit Bank (the "Bank") is a closed joint stock company, which was incorporated in Georgia in 1998 as Microfinance Bank of Georgia. Based on the Board of Directors decision on 31 July 2003, the Bank was renamed into ProCredit Bank, as stated in the court resolution dated 5 September 2003. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under the general banking license number 233. The Bank's primary business consists of originating loans and guarantees, attracting customer deposits and other retail banking services.

The legal address of the Bank is located at 154 Aghmashenebeli Avenue, 0112, Tbilisi, Georgia.

The Bank has a head office in Tbilisi and 58 branches and outlets in Tbilisi, Kutaisi, Batumi, Gori, Poti, Zugdidi, Kobuleti, Telavi, Rustavi, Sadakhlo, Marneuli, Kashuri, Zestaponi, Ozurgeti and Borjomi.

The Bank is a parent company of a banking group (the "Group"). The following subsidiary is consolidated in the financial statements:

Name	Country of operation	The Bank ownership interest 2008	2007	Type of operation
ProCredit Properties LLC	Georgia	100%	100%	Property management

ProCredit Properties LLC (the "Company") was formed as a limited liability company under the laws of Georgia on 23 July 2007. The Company's principal activities consist of holding of and investing in movable and immovable properties, including but not limited to purchase, sale, rent, and leasing.

As at 31 December 2008 and 2007, the following shareholders owned the issued shares of JSC ProCredit Bank.

Shareholder	31 December 2008, %	31 December 2007, %
ProCredit Holding AG	93.89%	91.42%
IPC GmbH	6.11%	7.35%
Commerzbank AG	-	1.23%
Total	**100%**	**100%**

These consolidated financial statements were authorized for issue by the Management Board of the Group on 2 March 2009.

2. BASIS OF PRESENTATION

Accounting basis

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

The Bank and its subsidiaries maintain their accounting records in accordance with IFRS. These consolidated financial statements have been prepared based on accounting records of the Bank and its subsidiaries.

Functional currency

The functional currency of the consolidated financial statements is the Georgian Lari.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and the entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the NBG, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), with original maturity within 90 days.

The minimum reserve deposits with the NBG are subject to restrictions to its availability and therefore are not included in cash and cash equivalents.

Due from banks

In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after being in arrears for more than one year.

Allowance for impairment losses

The Group accounts for impairment losses of financial assets not recorded at fair value when there is objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and security discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the provision account.

For the financial instruments recorded at cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument. Such impairment losses are not reversed.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included into profits using the provision account (financial assets recorded at amortized value) or by a direct write-off (financial assets recorded at cost). The assets recorded in the balance sheet are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is not improbable that in certain periods the Group can incur losses greater compared to recorded impairment.

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 derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group 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 Group 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.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities
A financial liability is derecognized when the obligation is discharged, 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

Investments available-for-sale

Investments available-for-sale represent equity investments that are intended to be held for an indefinite period of time. Investments available-for-sale are initially recorded at fair value and subsequently measured at fair value, with such re-measurement recognized directly in equity, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. When sold, the gain/loss previously recorded in equity is recycled through the consolidated income statement. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the consolidated income statement for the period. These financial assets are recognized net of reserve for impairment.

Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and any recognized impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, plant and equipment is charged on the carrying value of property, plant and equipment and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	2%
Office and computer equipment	20%-25%
Intangible assets	10%-50%
Other	20%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount; impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, plant and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on property, plant and equipment, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the balance sheet if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Georgia also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the income statement.

Due to banks, customer accounts, other borrowed funds and subordinated debt

Due to banks, customer accounts, other borrowed funds and subordinated debt are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

Provisions

Provisions are recognized when the Group 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 obligation can be made.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

Contingent liabilities are not recognized in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

Share capital and share premium

Contributions to share capital are recognized at their cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of the Georgian legislation, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. In addition such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the state pension fund. The Group does not have any pension arrangements separate from the state pension system of Georgia. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at the official spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

The exchange rates used by the Group in the preparation of the consolidated financial statements as at 31 December 2008 and 2007 are as follows:

	31 December 2008	31 December 2007
GEL/1 US Dollar	1.6670	1.5916
GEL/1 Euro	2.3648	2.3315

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Allowance for impairment of loans
The Group regularly reviews its loans to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and 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. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Georgia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Valuation of financial instruments
Financial instruments that are classified as available for sale are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its balance sheet as well as its profit/loss could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Group's reported net income.

Useful lives of property, plant and equipment
Items of property, plant and equipment are stated at cost less accumulated depreciation and less any accumulated impairment losses. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any one of these conditions or estimates may result in adjustments to future depreciation rates.

Adoption of new and revised standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2008. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

Amendments to IAS 1 "Capital Disclosures" ("IAS 1") – On 18 August 2005, the IASB issued amendments to IAS 1 which requires certain disclosures to be made regarding the entity's objectives, policies and processes for managing capital. Additional information was disclosed in the consolidated financial statements for the current and comparative reporting periods as required by amended IAS 1.

Amendments to IAS 39, "Financial Instruments: Recognition and Measurement", and IFRS 7, "Financial Instruments: Disclosures", titled "Reclassification of Financial Assets" – On 13 October 2008 IASB issued amendments to IAS 39 and IFRS 7 which permits certain reclassifications of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category and also allow reclassification of financial assets from the available for sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective as of 13 October 2008 and in certain circumstances can be applied retrospectively from 1 July 2008.

Standards and interpretations issued and not yet adopted

At the date of authorization of these consolidated financial statements, other than the Standards and Interpretations adopted by the Group in advance of their effective dates, the following Interpretations were in issue but not yet effective.

IFRIC 9 "Reassessment of Embedded Derivatives" which requires that there should be no reassessment of whether an embedded derivative should be separated from the host contract after initial recognition, unless there have been changes to the contract. The adoption of IFRIC 9 had no impact on the Group's profit or loss or financial position.

IFRS 8 – The IASB issued IFRS 8 "Operating Segments" in December 2006. This will replace IAS 14 "Segment Reporting" for accounting periods beginning on or after 1 January 2009. IFRS 8 requires segmental analysis reported by an entity to be based on information used by management. Management is currently assessing the impact of the adoption of IFRS 8.

IAS 1 – On 6 September 2006 , the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented to in IFRS but does not require that these be renamed in an entity's financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.

IAS 23 – On March 2007 the IASB issued a revised IAS 23 "Borrowing Costs". The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such asset. The Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

IAS 27 In 2008 the Standard was amended as part of the second phase of the business combinations project. That phase of the project was undertaken jointly with the US Financial Accounting Standards Board (FASB). The amendments related, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary. The boards concluded the second phase of the project by the IASB issuing the amended IAS 27 and the FASB issuing FASB Statement No. 160 Noncontrolling Interests in Consolidated Financial Statements, along with, respectively, a revised IFRS 3 Business Combinations and FASB Statement No. 141 (revised 2007) Business Combinations. He amended Standard must be applied for annual periods beginning on or after 1 July 2009. Earlier application is permitted. However, an entity must not apply the amendments for annual periods beginning before 1 July 2009 unless it also applies IFRS 3 (as revised in 2008).

4. PRIOR PERIOD RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements as at 31 December 2007 and for the year then ended to conform to the presentation as at 31 December 2008 and for the year then ended as current year presentation provides better view of the financial position of the Group.

Nature of reclassification	Amount	Balance sheet/Income statement line as per the previous report	Balance sheet/Income statement line as per current report
Money transfer settlements	705	Other liabilities	Customers accounts

5. NET INTEREST INCOME

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired financial assets	91,486	72,522
- interest income on unimpaired financial assets	4,794	4,149
Total interest income	**96,280**	**76,671**
Interest on loans to customers	91,486	72,522
Interest on due from banks	2,479	1,275
Interest on investments held to maturity	2,315	2,874
Total interest income	**96,280**	**76,671**
Interest expense comprises:		
Interest on customer accounts	(18,269)	(14,940)
Interest on due to banks	(16,766)	(10,748)
Interest on subordinated debt	(2,089)	(1,587)
Interest on other borrowed funds	(171)	(116)
Interest on debt securities issued	-	(647)
Total interest expense	**(37,295)**	**(28,038)**
Net interest income before provision for impairment losses on interest bearing assets	**58,985**	**48,633**

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest earning assets were as follows:

	Due from banks	Loans to customers	Total
31 December 2006	**17**	**12,523**	**12,540**
(Recovery of provision)/provision	(17)	3,928	3,911
Write-off of assets	-	(3,111)	(3,111)
Recoveries of assets previously written off	-	2,242	2,242
31 December 2007	-	**15,582**	**15,582**
Provision	-	6,589	6,589
Write-off of assets	-	(4,749)	(4,749)
Recoveries of assets previously written off	-	3,193	3,193
31 December 2008	-	**20,615**	**20,615**

The movements in allowances for impairment losses on other transactions were as follows:

	Other Assets	Guarantees and other commitments	Total
31 December 2006	218	72	290
Provision	342	74	416
Write-off of assets	(149)	-	(149)
Recoveries of assets previously written off	4	-	4
31 December 2007	415	146	561
Recovery of provision	(257)	(16)	(273)
Write-off of assets	(22)	-	(22)
Recoveries of assets previously written off	12	-	12
31 December 2008	148	130	278

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2008	Year ended 31 December 2007
Dealing, net	5,223	4,972
Translation differences, net	1,750	(1.432)
Total net gain on foreign exchange operations	**6,973**	**3,540**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
Fee and commission income:		
Settlements	2,456	2,436
Cash operations	1,664	1,514
Lending operations	1,190	1,215
Plastic cards operations	690	633
Documentary operations	161	181
Other	518	431
Total fee and commission income	**6,679**	**6,410**
Fee and commission expense:		
Plastic cards operations	(1,304)	(1,360)
Correspondent bank services	(758)	(362)
Borrowing operations	(307)	(283)
Cash operations	(102)	(174)
Documentary operations	(86)	(36)
Other	(40)	(27)
Total fee and commission expense	**(2,597)**	**(2,242)**

9. OTHER INCOME

Other income comprises:

	Year ended 31 December 2008	Year ended 31 December 2007
Fines and penalties received	1,817	1,641
Gain/(loss) from disposal of property, plant and equipment	1,720	(124)
Grant income	-	79
Other	113	239
Total other income	**3,650**	**1,835**

Gain from disposal of property, plant and equipment for the year ended 31 December 2008 includes gain on sale of property by ProCredit Properties LLC in the amount of GEL 1,693 thousand.

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
Staff costs	27,015	17,477
Unified social tax	-	3,511
Depreciation and amortization	4,621	3,583
Operating leases	3,270	2,711
Advertising costs	2,666	2,339
Professional services	2,315	2,642
Communications	1,944	1,727
Security expenses	1,660	1,311
Office supplies	824	795
Utilities	620	537
Business trip expenses	587	486
Property and equipment maintenance	523	403
Stationery	460	428
Insurance	411	390
Taxes, other than income tax	394	396
Representative expenses	199	217
Other expenses	3,712	2,003
Total operating expenses	**51,221**	**40,956**

11. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with Georgian tax regulations, which differ from International Financial Reporting Standards.

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2008 and 2007 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2008 and 2007 comprise:

	31 December 2008	31 December 2007
Deductible temporary differences:		
Loans to customers	(1,263)	(3,779)
Total deductible temporary differences	**(1,263)**	**(3,779)**
Taxable temporary differences:		
Property, plant and equipment	3,465	2,459
Total taxable temporary differences	**3,465**	**2,459**
Net deferred temporary differences	2,202	(1,320)
Net deferred tax liability at the statutory tax rate	330	(198)
Net deferred tax liability/(asset)	**330**	**(198)**

Relationships between tax expenses and accounting profit for the years ended 31 December 2008 and 2007 are explained as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Profit before income tax	16,153	12,893
Tax at the statutory tax rate (15%)	2,423	1,934
Effect of change in tax rate	-	691
Tax effect of permanent differences	152	62
Income tax expense	**2,575**	**2,687**
Current income tax expense	2,047	2,699
Deferred income tax expense/(benefit)	528	(12)
Income tax expense	**2,575**	**2,687**

Deferred income tax liabilities/(assets)	**2008**	**2007**
Beginning of the period	(198)	(186)
Increase/(decrease) in income tax liabilities for the period charged to profit	528	(12)
End of the period	**330**	**(198)**

12. CASH AND BALANCES WITH THE NATIONAL BANK OF GEORGIA

	31 December 2008	31 December 2007
Cash	35,436	23,322
Balances with the National Bank of Georgia	43,120	35,930
Total cash and balances with the National Bank of Georgia	**78,556**	**59,252**

The balances with the National Bank of Georgia ("NBG") as at 31 December 2008 and 2007 include GEL 11,546 thousand and GEL 26,111 thousand, respectively, which represent the obligatory minimum reserve deposits with the NBG. The Group is required to maintain the reserve balance with the NBG at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2008	31 December 2007
Cash and balances with the National Bank of Georgia	78,556	59,252
Due from banks in OECD countries (Note 30)	43,993	26,092
Less minimum reserve deposits with the NBG	(11,546)	(26,111)
Total cash and cash equivalents	111,003	59,233

13. DUE FROM BANKS

Due from banks comprise:

	31 December 2008	31 December 2007
Time deposits with other banks	31,654	16,648
Correspondent accounts with other banks	21,258	19,930
Total due from banks	**52,912**	**36,578**

Movements in allowances for impairment losses on balances due from banks for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

Included in due from banks are accrued interest in the amount of GEL 488 thousand and GEL 59 thousand as at 31 December 2008 and 2007, respectively.

As at 31 December 2008 and 2007 the Group had due from one bank, which individually comprised 12% of the Group's equity.

As at 31 December 2008 and 2007 the maximum credit risk exposure on due from banks amounted to GEL 47,408 thousand and GEL 36,578 thousand, respectively.

As at 31 December 2008 and 2007 included in balances due from banks are guarantee deposits placed by the Group for its plastic cards operations in the amount of GEL 288 thousand and GEL 268 thousand, respectively.

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2008	31 December 2007
Originated loans	519,910	382,435
Accrued interest	6,160	3,462
Less allowance for impairment losses	(20,615)	(15,582)
Total loans to customers	**505,455**	**370,315**

Movements in allowances for impairment losses for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

The table below summarizes the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2008	31 December 2007
Loans collateralized by combined collateral	377,543	195,755
Loans collateralized by guarantees	24,122	88,082
Loans collateralized by cash	6,751	3,434
Unsecured loans	97,039	83,044
Total loans to customers	**505,455**	**370,315**

	31 December 2008	31 December 2007
Analysis by sector:		
Trade and service	380,746	264,374
Individuals	45,517	36,353
Transport and communication	36,719	24,648
Manufacturing	11,757	17,868
Construction	5,655	4,343
Other	25,061	22,729
Total loans to customers	**505,455**	**370,315**

During the years ended 31 December 2008 and 2007 the Group received non-financial assets by taking possession of collateral held as security. As at 31 December 2008 and 2007 such assets in amount of GEL 251 thousand and GEL 56 thousand, respectively, are included in other assets.

Loans to individuals comprise the following products:

	31 December 2008	31 December 2007
Housing renovation loans	18,122	15,871
Mortgage loans	9,198	7,136
Consumer loans	5,749	5,676
Other	12,448	7,670
Total loans to individuals	**45,517**	**36,353**

As at 31 December 2008 and 2007 a maximum credit risk exposure on loans to customers amounted to GEL 505,455 and GEL 370,315 thousand, respectively. As at 31 December 2008 and 2007 a maximum credit risk exposure on loan commitments extended by the Group to its customers amounted to GEL 12,409 thousand and GEL 7,175 thousand, respectively.

As at 31 December 2008 and 2007 loans to customers included loans in amount of GEL 13,320 thousand (1,090 loans) and GEL 7,176 thousand (140 loans), respectively, whose terms have been renegotiated. Otherwise these loans would be past due or impaired.

As at 31 December 2008 and 2007 loans to customers included loans in amount of GEL 24,316 thousand and GEL 11,149 thousand, respectively which were individually impaired.

15. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	Ownership interest	31 December 2008	Ownership interest	31 December 2007
Equity securities				
ProCredit Academy of Macedonia	8.33%	236	-	-
JSC Creditinfo	16.63%	95	16.63%	95
JSC United Clearing Center	6.25%	54	-	-
JSC American Academy in Tbilisi	5.38%	50	5.38%	50
Total investments available-for-sale		**435**		**145**

16. INVESTMENTS HELD TO MATURITY

	Interest to nominal %	31 December 2008	Interest to nominal %	31 December 2007
Deposit certificates of the Ministry of Finance of Georgia	-		8.48-13.00	55,071
Less discount of deposit certificates	-	-	-	(971)
Total investments held to maturity		**-**		**54,100**

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings and other real estate	Office and computer equipment	Construction in progress	Other	Total
At initial cost					
31 December 2006	11,693	10,527	890	3,834	26,944
Additions	5,319	3,196	2,175	3,337	14,027
Disposals	(2,096)	(1,075)	(1,701)	(1,457)	(6,329)
31 December 2007	14,916	12,648	1,364	5,714	34,642
Additions	17,130	4,429	2,403	2,548	26,510
Disposals	(6)	(153)	(3,515)	(586)	(4,260)
31 December 2008	32,040	16,924	252	7,676	56,892
Accumulated depreciation					
31 December 2006	1,228	4,516	-	1,886	7,630
Charge for the year	194	1,712	-	1,529	3,435
Eliminated on disposals	-	(469)	-	(189)	(658)
31 December 2007	1,422	5,759	-	3,226	10,407
Charge for the year	510	2,295	-	1,621	4,426
Eliminated on disposals	-	(119)	-	(410)	(529)
31 December 2008	1,932	7,935	-	4,437	14,304
Net book value					
31 December 2008	**30,108**	**8,989**	**252**	**3,239**	**42,588**
31 December 2007	**13,494**	**6,889**	**1,364**	**2,488**	**24,235**

As at 31 December 2008 and 2007 included in property, plant and equipment were fully depreciated assets of GEL 3,917 thousand and GEL 2,913 thousand, respectively.

18. OTHER ASSETS

Other assets comprise:

	31 December 2008	31 December 2007
Other financial assets:		
Accounts receivable	373	420
Less allowance for impairment losses	(148)	(415)
Other non-financial assets:		
Prepaid operating expenses	2,877	4,464
Tax settlements, other than income tax	402	210
Intangible assets	296	470
Inventories	289	134
Repossessed assets	251	56
Other	681	153
Total other assets	**5,021**	**5,492**

Movements in allowances for impairment losses on other assets for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

Intangible assets include software, patents and licenses.

	Intangible assets
At initial cost	
31 December 2006	818
Additions	191
31 December 2007	1,009
Additions	112
Disposal	(133)
31 December 2008	988
Accumulated amortization	
31 December 2006	391
Charge for the year	148
31 December 2007	539
Charge for the year	195
Eliminated on disposal	(42)
31 December 2008	692
Net book value	-
31 December 2008	**296**
31 December 2007	**470**

19. DUE TO BANKS

Due to banks comprise:

	31 December 2008	31 December 2007
Correspondent accounts of other banks	5,504	4,287
Due to banks and financial institutions, including:		
ProCredit Holding AG	87,993	42,525
Blue Orchard Loans for Development 2006-1 S.A.	33,521	31,990
European Bank for Reconstruction and Development (the "EBRD")	25,141	26,541
Black Sea Trade and Development Bank (the "BSTDB")	17,081	4,971
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (the "FMO")	14,555	16,213
National Bank of Georgia	14,300	-
Global Microfinance Facility (the "GMF")	12,562	11,993
Kreditanstalt für Wiederaufbau (the "KfW")	10,869	14,528
Societe d'investissement a capital variable (the "SICAV")	8,454	-
Credit Suisse Microfinance Fund Management Company (the "CSMFMC" (Responsibility))	4,238	-
International Finance Corporation (the "IFC")	851	3,856
Loans from other banks and financial institutions	8,176	12,098
Total due to banks	**243,245**	**169,002**

As of 31 December 2008 and 2007 accrued interest expenses included in due to banks amounted to GEL 2,883 thousand and GEL 2,134 thousand, respectively.

On 31 December 2008, ProCredit Holding AG placed a deposit in the amount of EUR 3,000 thousand (GEL 7,094 thousand) repayable in full by the Group at maturity on 14 January 2009.

On 31 December 2008, ProCredit Holding AG placed a deposit in the amount of USD 2,000 thousand (GEL 3,334 thousand) repayable in full by the Group at maturity on 26 January 2009.

On 31 December 2008, ProCredit Holding AG placed a deposit in the amount of USD 5,000 thousand (GEL 8,335 thousand) repayable in full by the Group at maturity on 12 January 2009.

On 28 October 2008 the Group signed amendment on extension of loan agreement with ProCredit Holding AG signed on 28 July 2008 in the amount of USD 8,754 thousand (GEL 14,593 thousand) repayable in full at maturity on 30 January 2009. As of 31 December 2008 the Group drew down the total amount of the loan.

On 30 September 2008 the Group signed a loan agreement with ProCredit Holding AG in the amount of USD 7,200 thousand (GEL 12,002 thousand) repayable in full at maturity on 5 January 2009. As of 31 December 2008 the Group drew down the total amount of the loan.

On 1 February 2008 the Group signed a loan agreement with ProCredit Holding AG in the amount of USD 5,000 thousand (GEL 8,335 thousand) repayable in full at maturity on 7 February 2011. As of 31 December 2008 the Group drew down the total amount of the loan.

On 7 December 2007 the Group signed a loan agreement with ProCredit Holding AG in the amount of USD 10,000 thousand (GEL 16,670 thousand) repayable in full at maturity on 7 December 2010. As of 31 December 2008 the Group drew down the total amount of the loan.

On 25 October 2007 the Group signed a loan agreement with ProCredit Holding AG in the amount of USD 10,000 thousand (GEL 16,670 thousand) repayable in full at maturity on 25 October 2010. As of 31 December 2008 the Group drew down the total amount of the loan.

On 14 June 2007 the Group has signed a term loan agreement with Blue Orchard Loans for Development 2006-1 S.A., a global microfinance institution registered in Luxemburg, in the amount of USD 10,000 thousand (GEL 16,670 thousand) repayable in full at maturity on 1 June 2012. As of 31 December 2008 the Group drew down the total amount of the loan.

On 7 April 2006 the Group has signed a term loan agreement with Blue Orchard Loans for Development 2006-1 S.A., in the amount of USD 10,000 thousand (GEL 16,670 thousand) repayable in full at maturity on 15 March 2011. As of 31 December 2008 the Group drew down the total amount of the loan.

On 24 August 2007 the Group signed a loan agreement with the EBRD in the amount of USD 15,000 thousand (GEL 25,005 thousand) with maturity on 29 May 2010. The loan principal together with accrued interest has to be repaid on 29 May 2010. At 31 December 2008 the Group drew down the total amount of the loan.

On 13 February 2008 the Group signed a loan agreement with the BSTDB, registered in Thessaloniki, Greece, in the amount of USD 10,000 thousand (GEL 16,670 thousand). The Group has to repay the loan in single installment on the date which is 36 months from the date of signing the loan agreement. As of 31 December 2008 the Group drew down the total amount of the loan.

On 30 September 2008 the Group has signed a term loan agreement with the National Bank of Georgia in the amount of GEL 14,300 thousand for the period of 180 days with possibility of further extension. As of 31 December 2008 the Group drew down the total amount of the loan.

On 30 April 2007 the Group signed a loan agreement with the FMO, in the amount of USD 5,000 thousand (GEL 8,335 thousand) repayable on 15 October 2011. As of 31 December 2008 the outstanding loan principal amounted to USD 4,286 thousand (GEL 7,145 thousand).

On 20 October 2006 the Group signed a loan agreement with the FMO, registered in Hague, Netherlands, in the amount of USD 10,000 thousand (GEL 16,670 thousand) repayable semi-annually in equal installments starting from 15 October 2008 till 15 October 2011. As of 31 December 2008 the Group's outstanding balance was USD 4,286 thousand (GEL 7,145 thousand).

On 11 September 2007 the Group signed a loan agreement with the GMF in the amount of USD 7,500 thousand (GEL 12,503 thousand) repayable on 11 September 2012. As of 31 December 2008 the Group drew down the total amount of the loan.

On 1 February 2006 the Group signed a loan agreement with the KfW, an international financial institution registered in Frankfurt, Germany, for USD 10,000 thousand (GEL 16,670 thousand) disbursed in two installments during the year 2006. The loan is repayable semi annually in equal installments starting from 30 July 2007 till 30 January 2011. As of 31 December 2008 the outstanding loan principal amounted to USD 6,250 thousand (GEL 10,419 thousand).

On 4 April 2008 the Group signed promissory notes with the SICAV, an investment company registered in Luxemburg, for the amounts of USD 1,500 thousand (GEL 2,501 thousand) and USD 3,500 thousand (GEL 5,835 thousand) repayable on 4 April 2011.

On 19 March 2008 the Group signed a promissory note with the CSMFMC (ResponsAbility), for the amount of USD 5,000 thousand (GEL 8,335 thousand) repayable on 19 March 2011. On 19 December 2008 the Group sent a permission request to CSMFMC (ResponsAbility) on repayment of a half of the amount plus accrued interest in amount of USD 38 thousand in accordance with the CSMFMC (ResponsAbility) and ProCredit Holding AG policy on credit limit for ProCredit Group Companies due to the fact that the CSMFMC (ResponsAbility) represents one of the shareholders of ProCredit Holding AG. As of 31 December 2008 the outstanding loan principal amounted to USD 2,500 thousand (GEL 4,168 thousand).

On 25 June 2004 the Group signed a credit line agreement with the IFC for the amount of USD 4,000 thousand (GEL 6,668 thousand) repayable semi-annually in equal installments starting from 31 September 2005 and ending on 31 March 2009. As of 31 December 2008 the outstanding loan principal amounted to USD 500 thousand (GEL 834 thousand).

The Group is obligated to comply with financial covenants in relation to due to banks disclosed above.

20. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2008	31 December 2007
Time deposits	237,162	205,373
Repayable on demand	56,434	70,795
Total customer accounts	**293,596**	**276,168**

As of 31 December 2008 and 2007 accrued interest expenses included in customers accounts amounted to GEL 5,453 thousand and GEL 4,723 thousand, respectively.

As at 31 December 2008 and 2007 customer accounts amounted to GEL 1,523 thousand and GEL 2,269 thousand, respectively, were held as security against guarantees issued.

	31 December 2008	31 December 2007
Analysis by sector:		
Individuals	233,973	226,652
Trade and services	26,682	25,765
Construction	2,892	1,839
Transport and communication	1,332	1,079
Mining	1,228	599
Agriculture and forestry	849	133
Energy	218	50
Other	26,422	20,051
Total customer accounts	**293,596**	**276,168**

21. OTHER BORROWED FUNDS

Other borrowed funds comprise:

	31 December 2008	31 December 2007
Ministry of Economic Development of Georgia	5,018	2,512
Ministry of Finance of Georgia	3,862	4,020
Total other borrowed funds	**8,880**	**6,532**

As of 31 December 2008 and 2007 accrued interest expenses included in other borrowed funds amounted to GEL 25 thousand and GEL 21 thousand, respectively.

On 16 August 2007 the Group signed a loan agreement with Ministry of Economic Development of Georgia in the amount of GEL 5,000 thousand repayable in three years from the date of receipt in five equal installments during the two year period. The loan was received in the frame of "Cheap Credit" program for the support of tourism in Georgia. As of 31 December 2008 the Group drew down the total amount of the loan.

The Group has a credit line agreement with the Ministry of Finance of Georgia, which has an underlying agreement with the KfW. The Ministry of Finance of Georgia received funds from the KfW and subsequently allocated these funds among commercial banks of Georgia. The loan received by the Group from Ministry of Finance of Georgia on 14 December 1999 amounted to Deutsche Mark ("DEM") 3,541 thousand. The outstanding loan amount in Deutsche Mark was converted into Euros at 1 January 2002 at rate 1.96 DEM per 1 Euro, i.e. EUR 1,810 thousand maturing on 1 December 2026. As at 31 December 2008 the principal amount obtained from the Ministry of Finance of Georgia equaled EUR 1,630 thousand (GEL 3,855 thousand).

22. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2008	31 December 2007
Other financial liabilities:		
Advances received	4,173	3,076
Total other financial liabilities	4,173	3,076
Other non-financial liabilities:		
Taxes payable, other than income tax	245	168
Provision of guarantees and other commitments	130	146
Other	107	235
Total other liabilities	**4,655**	**3,625**

23. SUBORDINATED DEBT

	Currency	31 December 2008	31 December 2007
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (the "FMO")	USD	16,730	-
ProCredit Holding AG	USD	9,169	2,756
ProCredit Holding AG	USD	4,552	-
ProCredit Holding AG	USD	4,494	-
ProCredit Holding AG	USD	3,334	8,754
Kreditanstalt für Wiederaufbau (the "KfW")	USD	3,141	3,183
Total subordinated debt		**41,420**	**14,693**

As of 31 December 2008 and 2007 accrued interest expenses included in subordinated debt amounted to GEL 783 thousand and GEL 9 thousand, respectively.

On 11 December 2008 the Group signed a subordinated loan agreement with the FMO in the amount of USD 10,000 thousand (GEL 16,670 thousand) repayable in full at maturity on 15 October 2018. As of 31 December 2008 the Group drew down the total amount of the loan.

On 18 May 2005 the Group signed a subordinated loan agreement with ProCredit Holding AG in the amount of USD 5,500 thousand (GEL 9,169 thousand). The loan has to be repaid in full at maturity on 24 May 2015. As of 31 December 2008 the Group drew down the total amount of the loan.

On 15 April 2008 the Group signed a subordinated loan agreement with ProCredit Holding AG, registered in Frankfurt, Germany, in the amount of USD 2,500 thousand (GEL 4,168 thousand) repayable in full at maturity on 17 April 2018. As of 31 December 2008 the Group drew down the total amount of the loan.

On 18 February 2008 the Group signed a subordinated loan agreement with ProCredit Holding AG, registered in Frankfurt, Germany, in the amount of USD 2,500 thousand (GEL 4,168 thousand) repayable in full at maturity on 19 February 2018. As of 31 December 2008 the Group drew down the total amount of the loan.

On 11 April 2006 the Group signed a subordinated loan agreement with ProCredit Holding AG, registered in Frankfurt, Germany, in the amount of USD 2,000 thousand (GEL 3,334 thousand) repayable in full at maturity on 11 April 2016. As of 31 December 2008 the Group drew down the total amount of the loan.

On 10 May 2004 the Group signed a convertible subordinated loan agreement with the KfW in the amount of USD 1,877 thousand (GEL 3,129 thousand). In accordance with the agreement the KfW has the right to participate in all increases of the Group's equity by converting loan amounts into ordinary shares of the Group. The loan principal amount not converted into ordinary shares is repayable in full at maturity on 17 May 2012. The Group repays interest on loan amounts outstanding and not converted into ordinary shares of the Group. As of 31 December 2008 the Group drew down the total amount of the loan and has not converted any portion of the loan into its ordinary shares.

In the event of bankruptcy or liquidation of the Group, repayment of these loans is subordinated to the repayments of the Group's liabilities to all other creditors.

The Group is obligated to comply with financial covenants in relation to subordinated debt disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios.

24. SHARE CAPITAL AND SHARE PREMIUM

As of 31 December 2008 and 2007 the Group's paid-in share capital consisted of 11,770,000 and 9,786,300 ordinary shares, respectively with par value of GEL 5 each.

As at 31 December 2008 the Group's share capital comprised of the following number of shares with the par value of GEL 5 each:

	Authorized share capital	**Unpaid share capital**	**Total share capital**
Ordinary shares	13,770,000	(2,000,000)	11,770,000

As at 31 December 2007 the Group's share capital comprised of the following number of shares with the par value of GEL 5 each:

	Authorized share capital	**Unpaid share capital**	**Total share capital**
Ordinary shares	11,786,300	(2,000,000)	9,786,300

The below table provides a reconciliation of the number of shares outstanding as of 31 December 2008 and 2006:

	Ordinary shares Share'000
31 December 2006	9,786
Issue of shares	-
31 December 2007	9,786
Issue of shares	1,984
31 December 2008	**11,770**

Share premium represents an excess of contributions received over the nominal value of shares issued.

At 31 December 2008 dividends declared and distributed on a pro rata basis amounted to GEL 9,000 thousand and GEL 15,399 thousand, respectively. Dividends distributed during the year ended 31 December 2008 included dividends in the amount of GEL 6,485 thousand for the year ended 31 December 2007.

At 31 December 2007 dividends declared and distributed on a pro rata basis amounted to GEL 7,000 thousand and GEL 515 thousand, respectively.

25. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Provision for losses on contingent liabilities amounted to GEL 130 thousand and GEL 146 thousand as at 31 December 2008 and 2007, respectively.

As at 31 December 2008 and 2007 the nominal or contract amounts were:

	31 December 2008 Nominal Amount	31 December 2007 Nominal Amount
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	12,409	7,175
Guarantees issued and similar commitments	6,542	7,317
Letters of credit and other transaction related contingent obligations	-	437
Total contingent liabilities and credit commitments	**18,951**	**14,929**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2008 and 2007 such unused credit lines amount to GEL 12,409 thousand and GEL 7,175 thousand, respectively.

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at 31 December 2008 and 2007.

Operating lease commitments – No material rental commitments were outstanding as at 31 December 2008 and 2007.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Due to the presence in Georgian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Group's business activities was to be challenged by the tax authorities, the Group may by assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions and market level for deals' pricing. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements.

Operating environment – The Group's principal business activities are within Georgia. Laws and regulations affecting the business environment in Georgia are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

Specific volatility in global and Georgian financial markets – In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Georgia, notwithstanding any potential economic stabilisation measures that may be put into place by the Georgian Government, as at the date these consolidated financial statements are authorised for issue there exist economic uncertainties surrounding the continual availability, and cost, of credit both for the entity and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may not be recovered at their carrying amount in the ordinary course of business, and a corresponding impact on the Group's profitability.

The counterparties of the Group didn't decrease the limits on the Group and didn't otherwise change the terms of cooperation with the Group, which would became less advantageous for the Group.

Recoverability of financial assets – As a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing as at balance sheet date, there exists the potential that assets may not be recovered at their carrying amount in the regular course of business.

As at 31 December 2008, the Group has financial assets amounting to GEL 637,731 thousand (as at 31 December 2007: GEL 520,810 thousand). The recoverability of these financial assets depends on a large extent on the efficacy of the fiscal measures and other measures and other actions, beyond the Group's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the Group's financial assets is determined based on conditions prevailing and information available as at balance sheet date. It is the management's opinion that no additional provision on financial assets is needed at present, based on prevailing conditions and available information.

26. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives then significant influence over the Group; and that have joint control over the Group;
(b) Associates – enterprises on which the Group has significant influence and which is neither a subsidiary nor a joint venture of the invest-tor;
(c) Joint ventures in which the Group is a venturer;
(d) Members of key management personnel of the Group or its parent;
(e) Close members of the family of any individuals referred to in (a) or (d);
(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2008 and 2007 with related parties:

	31 December 2008		31 December 2007	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Due from banks	28,461	52,912	9,351	36,578
- shareholders	28,378		9,351	
- other related parties	83		-	
Loans to customers	5,032	526,070	-	385,897
- other related parties	5,032		-	
Allowance for impairment losses	(75)	(20,615)	-	(15,582)
- other related parties	(75)		-	
Other assets	188	5,021	54	5,492
- shareholders	-		54	
- other related parties	188		-	
Due to banks	93,829	243,245	50,556	169,002
- shareholders	93,829		41,829	
- other related parties	-		8,727	
Customer accounts	463	293,596	129	276,168
- key management personnel of the Group or its parent	113		129	
- other related parties	350		-	
Dividends payable	86	86	6,485	6,485
- shareholders	86		6,485	
Subordinated debt	21,549	41,420	14,693	14,693
- shareholders	21,549		14,693	

	31 December 2008		31 December 2007	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:				
- management service fee	868	2,315	1,413	2,642

Included in the income statement for the years ended 31 December 2008 and 2007 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	1,210	96,280	69	76,671
- shareholders	930		44	
- other related parties	280		25	
Interest expense	(3,983)	(37,295)	(2,933)	(28,038)
- shareholders	(3,977)		(2,507)	
- key management personnel of the Group or its parent	(4)		(4)	
- other related parties	(2)		(422)	
Provision for impairment losses	(75)	(6,589)	-	(3,911)
- other related parties	(75)		-	
Other income	1,693	3,650	190	1,853
- shareholders	-		190	
- other related parties	1,693		-	
Operating expenses	(2,111)	(51,221)	(2,193)	(40,956)
-shareholders	(965)		(780)	
- key management personnel of the Group or its parent	(868)		(1,413)	
-other related parties	(278)		-	

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Group is presented below:

	31 December 2008		31 December 2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the National Bank of Georgia	78,556	78,556	59,252	59,252
Due from banks	52,912	52,912	36,578	36,578
Loans to customers	505,455	505,455	370,315	370,315
Investments available-for-sale	435	435	145	145
Investments held to maturity	-	-	54,100	54,100
Due to banks	243,245	243,245	169,002	169,002
Customer accounts	293,596	293,596	276,168	276,168
Other borrowed funds	8,880	8,880	6,532	6,532
Subordinated debt	41,420	41,420	14,693	14,693

28. REGULATORY MATTERS

The following table analyzes the Group's regulatory capital resources for capital adequacy purposes:

	2008	2007
Movement in tier 1 capital:		
At 1 January	72,989	69,783
Increase in share capital	9,918	-
Increase in share premium	5,300	-
Dividends declared	(9,000)	(7,000)
Profit for the year	13,578	10,206
At 31 December	92,785	72,989

	2008	2007
Composition of regulatory capital:		
Tier 1 capital:	92,785	72,989
Total qualifying tier 1 capital	92,785	72,989
Subordinated debt	41,420	14,693
Total regulatory capital	134,205	87,682
Capital Ratios:		
Tier 1 capital	16.42%	15.53%
Total capital	23.75%	18.65%

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee.

As at 31 December 2008 the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

29. CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent in its business.

The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and the National Bank of Georgia.

The primary objectives of the Group's capital management are to ensure that the Group complies with all externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to ensure that entities in the Group will be able to continue as a going concern while enhancing the return to the Group's shareholders.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 22, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The management board reviews the capital structures on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy is revised on an annual basis.

30. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

The Management Board and Audit Committee are ultimately responsible for identifying and controlling the risks; however, there are some separate independent bodies (Supervisory Board, Audit Committee, Internal Audit Department), as well as Risk Management Department, Budgeting and Controlling Department, Treasury Department, Credit Risk Department responsible for managing and monitoring various risks.

The Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the branch or the Group wide Credit Committees and Group's Management Board. If the loan application is above the established approval limit of the Branch Credit Committees, it is considered by the Head Office Credit Committee and Credit Risk Department. All recommendations on credit processes are reviewed and approved by the Branch Credit Committee or the Credit Risk Department at the Head Office within the established approval limits. Daily risk management is performed by the Credit Risk Department and Branch Credit Departments.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and market segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved semi annually by the Credit Committee with the involvement of the Management Board. The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee and Assets and Liabilities Committee (the "ALCO"). Actual exposures against limits are monitored on a continuous basis.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees but some portion is micro lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum exposure

The Group's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The Group can engage in any process of granting credit (i.e. loans, letters of credit, guarantees etc.) to any single customer or group of related customers within the established approved limits. Credit exposures above the internal limits are subject to approval of the Supervisory Board. The National Bank of Georgia sets the limit on credits granted to a single borrower or a group of related borrowers at 15% and 25% of the Group's Total Capital, respectively.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off balance sheet assets, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

As at 31 December 2008:

	Maximum exposure
Due from banks	52,912
Loans to customers	505,455
Investments available-for-sale	435
Other financial assets	373

As at 31 December 2007:

	Maximum exposure
Due from banks	36,578
Loans to customers	370,315
Investments available-for-sale	145
Investments held to maturity	54,100
Other financial assets	420

Financial assets are graded according to the current credit rating that has been issued by an internationally regarded agency such as Fitch. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group as at 31 December 2008:

	AAA	AA	A	BBB	<BBB	Not Rated	Total at 31 December 2008
Due from banks	-	4.186	16,934	28,736	229	2,827	52,912
Loans to customers	-	-	-	-	-	505,455	505,455
Investments available-for-sale	-	-	-	-	-	435	435
Other financial assets	-	-	-	-	-	373	373

As at 31 December 2007:

	AAA	AA	A	BBB	<BBB	Not Rated	Total at 31 December 2007
Due from banks	-	14,741	7,039	4,671	5,893	4,234	36,578
Loans to customers	-	-	-	-	-	370,315	370,315
Investments available-for-sale	-	-	-	-	-	145	145
Investments held to maturity	-	-	-	-	54,100	-	54,100
Other financial assets	-	-	-	-	-	420	420

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within Georgia. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Geographical concentration

The Risk Management Department exercises control over the risk in the legislation and regulatory framework in Georgia and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in Georgia.

The geographical concentration of assets and liabilities is set out below:

	Georgia	Other non-OECD countries	OECD countries	31 December 2008 Total
FINANCIAL ASSETS				
Cash and balances with the National Bank of Georgia	78,556	-	-	78,556
Due from banks	2,322	235	50,355	52,912
Loans to customers	500,428	5,027	-	505,455
Investments available-for-sale	435	-	-	435
Other financial assets	373	-	-	373
TOTAL FINANCIAL ASSETS	**582,114**	**5,262**	**50,355**	**637,731**
FINANCIAL LIABILITIES				
Due to banks	22,140	12,561	208,544	243,245
Customer accounts	283,822	4,693	5,081	293,596
Other borrowed Funds	8,880	-	-	8,880
Dividends payable	86	-		86
Other financial liabilities	4,173	-	-	4,173
Subordinated debt	-	41,420	-	41,420
TOTAL FINANCIAL LIABILITIES	**319,101**	**58,674**	**213,625**	**591,400**
NET POSITION	**263,013**	**(53,412)**	**(163,270)**	

	Georgia	Other non-OECD countries	OECD countries	31 December 2007 Total
FINANCIAL ASSETS				
Cash and balances with the National Bank of Georgia	59,252	-	-	59,252
Due from banks	8,528	1,958	26,092	36,578
Loans to customers	370,315	-	-	370,315
Investments available-for-sale	145	-	-	145
Investments held to maturity	54,100	-	-	54,100
Other financial assets	420	-	-	420
TOTAL FINANCIAL ASSETS	**492,760**	**1,958**	**26,092**	**520,810**
FINANCIAL LIABILITIES				
Due to banks	4,287	23,442	141,273	169,002
Customer accounts	271,494	1,706	2,968	276,168
Other borrowed funds	6,532	-	-	6,532
Dividends payable	-	-	6,485	6,485
Other financial liabilities	3,076	-	-	3,076
Subordinated debt	-	-	14,693	14,693
TOTAL FINANCIAL LIABILITIES	**285,389**	**25,148**	**165,419**	**475,956**
NET POSITION	**207,371**	**(23,190)**	**(139,327)**	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The ALCO controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The ALCO also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Risk Management Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's contracts on loans received and certain financial assets that bear interest are either fixed or variable. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The following table presents a disclosure of interest rate risk and thus the potential of the Group for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	2008			2007		
	GEL	USD	Other currencies	GEL	USD	Other currencies
ASSETS						
Cash and balances with the National Bank of Georgia	-	-	-	-	1.49%	-
Due from banks	-	3.81%	4.78%	8.00%	4.11%	4.47%
Loans to customers	27.72%	18.15%	12.84%	29.83%	18.01%	14.01%
Investments held to maturity	-	-	-	10.28%	-	-
LIABILITIES						
Due to banks	13.78%	7.19%	4.5%	-	8.69%	-
Customer accounts	8.48%	7.55%	6.85%	7.45%	6.51%	6.40%
Other borrowed funds	2.00%	-	2.50%	2.00%	-	2.50%
Subordinated debt	-	10.44%	-	-	10.79%	-

An analysis of the liquidity risk on balance sheet transactions is presented in the following table:

As at 31 December 2008:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL ASSETS							
Due from banks	43,308	-	2,631	-	-	-	45,939
Loans to customers	26,621	51,545	154,594	232,854	39,841	-	505,455
Total interest bearing assets	**69,929**	**51,545**	**157,225**	**232,854**	**39,841**	**-**	**551,394**
Cash and balances with the National Bank of Georgia	78,556	-	-	-	-	-	78,556
Due from banks	6,973	-	-	-	-	-	6,973
Investments available-for-sale	-	-	-	-	-	435	435
Other financial assets	-	-	-	373	-	-	373
TOTAL FINANCIAL ASSETS	**155,458**	**51,545**	**157,225**	**233,227**	**39,841**	**435**	**637,731**
FINANCIAL LIABILITIES							
Due to banks	48,259	16,131	16,119	157,232	-	-	237,741
Customer accounts	63,154	87,956	78,660	19,666	1,701	-	251,137
Other borrowed funds	-	-	-	5,026	3,854	-	8,880
Subordinated debt	72	326	385	3,130	37,507	-	41,420
Total interest bearing liabilities	**111,485**	**104,413**	**95,164**	**185,054**	**43,062**	**-**	**539,178**
Due to banks	5,504	-	-	-	-	-	5,504
Customer accounts	42,459	-	-	-	-	-	42,459
Dividends payable	86	-	-	-	-	-	86
Other financial liabilities	13	547	1,462	1,703	448	-	4,173
TOTAL FINANCIAL LIABILITIES	**159,547**	**104,960**	**96,626**	**186,757**	**43,510**	**-**	**591,400**
Liquidity gap	(4,089)	(53,415)	60,599	46,470	(3,669)		
Interest sensitivity gap	(41,556)	(52,868)	62,061	47,800	(3,221)		
Cumulative interest sensitivity gap	**(41,556)**	**(94,424)**	**(32,363)**	**15,437**	**12,216**		
Cumulative interest sensitivity gap as a percentage of total assets	**(6%)**	**(14%)**	**(5%)**	**2%**	**2%**		

As at 31 December 2007:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
FINANCIAL ASSETS							
Due from banks	31,647	4,663	-	-	-	268	36,578
Loans to customers	21,025	33,550	131,672	162,481	21,587	-	370,315
Investments held to maturity	19,895	18,607	15,598	-	-	-	54,100
Total interest bearing assets	**72,567**	**56,820**	**147,270**	**162,481**	**21,587**	**268**	**460,993**
Cash and balances with the National Bank of Georgia	33,141	-	-	-	-	26,111	59,252
Investments available-for-sale	-	-	-	-	-	145	145
Other financial assets	-	-	-	420	-	-	420
TOTAL FINANCIAL ASSETS	**105,708**	**56,820**	**147,270**	**162,901**	**21,587**	**26,524**	**520,810**
FINANCIAL LIABILITIES							
Due to banks	15,006	9,753	15,053	129,190	-	-	169,002
Customer accounts	47,928	81,666	65,585	12,550	868	-	208,597
Other borrowed funds	-	-	-	2,512	4,020	-	6,532
Subordinated debt	-	-	9	2,747	11,937	-	14,693
Total interest bearing liabilities	**62,934**	**91,419**	**80,647**	**146,999**	**16,825**	**-**	**398,824**
Customer accounts	67,571	-		-	-	-	67,571
Other financial liabilities	235	439	1,033	1,305	64	-	3,076
Dividends payable	-	6,485	-	-	-	-	6,485
TOTAL FINANCIAL LIABILITIES	**130,740**	**98,343**	**81,680**	**148,304**	**16,889**	**-**	**475,956**
Liquidity gap	**(25,032)**	**(41,523)**	**65,590**	**14,597**	**4,698**		
Interest sensitivity gap	**9,633**	**(34,599)**	**66,623**	**15,482**	**4,762**		
Cumulative interest sensitivity gap	**9,633**	**(24,966)**	**41,657**	**57,139**	**61,901**		
Cumulative interest sensitivity gap as a percentage of total assets	**2%**	**(5%)**	**8%**	**10%**	**11%**		

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the balance sheet as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the balance sheet under the effective interest rate method.