JSC ProCredit Bank

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor’s Report
31 December 2009

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of JSC ProCredit Bank:

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

Management's Responsibility for the Financial Statements

2 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.

Auditor's Responsibility

3 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 misstatements.

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

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

Opinion

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

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

29 March 2010
Tbilisi, Georgia

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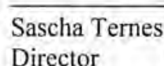
Consolidated Statement of Financial Position

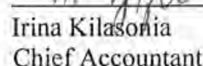
in '000 GEL

	Notes	2009	2008	2007
Assets				
Cash and cash equivalents	7	107,939	78,556	59,252
Due from other banks	8	37,106	52,912	36,578
Financial assets at fair value through profit or loss		-	-	55
Investment securities available-for-sale	9	4,357	435	145
Investments held to maturity		-	-	54,100
Loans and advances to customers	10	517,328	501,282	367,239
Intangible assets	11	2,763	296	470
Property, plant and equipment	12	44,943	42,588	24,235
Current tax assets		137	30	-
Deferred tax asset	20	-	-	198
Other assets	13	7,640	4,103	4,967
Total assets		**722,213**	**680,202**	**547,239**
Liabilities				
Due to other banks	14	493	22,145	15,091
Financial liabilities at fair value through profit or loss	15	905	-	-
Customers accounts	16	384,393	293,596	276,168
Other borrowed funds	17	164,650	229,524	160,442
Other financial liabilities	18	1,119	437	6,889
Provisions for off-balance sheet items	19	109	131	146
Current tax liability		-	-	821
Deferred tax liability	20	2,046	330	-
Subordinated debt	21	67,642	41,254	14,693
Total liabilities		**621,357**	**587,417**	**474,250**
Equity				
Share capital	22	58,850	58,850	48,932
Share premium	22	11,593	11,593	6,293
Retained earnings		30,413	22,342	17,764
Total equity		**100,856**	**92,785**	**72,989**
Total equity and liabilities		**722,213**	**680,202**	**547,239**

Approved for issue and signed on behalf of the Board of Directors on 29 March 2010.



Sascha Ternes
Director



Irina Kilasonia
Chief Accountant

Consolidated Statement of Comprehensive Income

in '000 GEL

	Notes	2009	2008
Interest income		115,008	99,246
Interest expense		(44,759)	(37,602)
Net interest income	23	**70,249**	**61,644**
Provision for loan impairment	10	(311)	(6,589)
Net interest income after provision for loan impairment		**69,938**	**55,055**
Fee and commission income	24	5,863	5,489
Fee and commission expenses	24	(2,501)	(2,290)
Gains less losses from trading in foreign currency	25	4,883	5,223
Foreign exchange translation (losses net of gains) / gains less losses	25	(584)	1,750
Losses from financial assets and liabilities at fair value through profit or loss		(43)	(52)
Other operating income	26	956	2,681
Other operating expense	26	(613)	(883)
Personnel expenses	27	(29,765)	(27,015)
Other administrative expenses	27	(24,692)	(23,805)
Profit before tax		**23,442**	**16,153**
Income tax expense	20	(3,621)	(2,575)
Profit for the year		**19,821**	**13,578**
Total comprehensive income for the year		**19,821**	**13,578**

Approved for issue and signed on behalf of the Board of Directors on 29 March 2010.

Sascha Ternes
Director

Irina Kilasonia
Chief Accountant

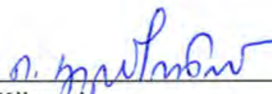
Consolidated Statement of Changes in Equity

in '000 GEL

	Share capital	Capital reserve	Retained earnings	Total
Balance at 1 January 2008	**48,932**	**6,293**	**17,764**	**72,989**
Total comprehensive income for the year	-	-	13,578	13,578
Distributed dividends from 2007 profit	-	-	(9,000)	(9,000)
Capital increase	9,918	5,300	-	15,218
Balance at 31 December 2008	**58,850**	**11,593**	**22,342**	**92,785**
Total comprehensive income for the year	-	-	19,821	19,821
Distributed dividends from 2008 profit	-	-	(11,750)	(11,750)
Balance at 31 December 2009	**58,850**	**11,593**	**30,413**	**100,856**

Approved for issue and signed on behalf of the Board of Directors on 29 March 2010.

Sascha Ternes
Director



Irina Kilasonia
Chief Accountant

Consolidated Statement of Cash Flows

in '000 GEL

	Notes	2009	2008
Profit before tax		**23,442**	**16,153**
Provision for loan impairment	10	311	6,316
Gains from financial assets designated at fair value through profit or loss		(43)	-
Depreciation and amortization	27	5,600	4,621
Unrealized losses/(gains) from currency revaluation		65	5,223
Release of provision for off-balance sheet items		(22)	(16)
Gains from disposal of property, plant and equipment		(154)	(138)
Interest received		114,038	93,153
Interest paid		(43,821)	(35,029)
Income tax paid		(2,010)	(2,898)
Operating cash flows before changes in operating assets and liabilities		**97,406**	**87,385**
Increase / decrease of assets and liabilities from operating activities after non-cash items:			
Due from other banks		(16)	16,561
Financial assets at fair value through profit or loss		53	120
Loans and advances to customers		(9,736)	(137,475)
Other assets		(3,545)	4,421
Due to other banks		(21,442)	58,690
Financial liabilities at fair value through profit or loss		905	-
Customers accounts		70,739	16,698
Other financial liabilities		683	(8,006)
Interest and dividends		(70,249)	(62,241)
Net cash from / (used in) operating activities		**64,798**	**(23,847)**
Purchase of property, plant and equipment		(14,706)	(26,622)
Proceeds from sale of property, plant and equipment		4,432	3,758
Purchas of investment securities available for sale		(3,920)	(290)
Proceeds from sale of investments held to maturity		-	54,100
Cash flow (used in) / from investing activities		**(14,194)**	**30,946**
Dividends paid		(11,750)	(15,399)
Shares issued		-	15,218
Proceeds from other borrowed funds		52,171	25,541
Repayments of other borrowed funds		(97,774)	(8,393)
Proceeds from subordinated debt		32,114	29,352
Repayments of subordinated debt		(6,090)	(3,398)
Cash flows (used in) / from financing activities		**(31,329)**	**42,921**
Cash and cash equivalents at the beginning of the year	7	**111,003**	**59,252**
Cash flow from operating activities		64,798	(23,847)
Cash flow from investing activities		(14,194)	30,946
Cash flow from financing activities		(31,329)	42,921
Effects of exchange rate changes		(67)	1,731
Cash and cash equivalents at the end of the year	7	**130,211**	**111,003**

Approved for issue and signed on behalf of the Board of Directors on 29 March 2010.

Sascha Ternes
Director

Irina Kilasonia
Chief Accountant

The notes set out on pages 6 to 62 form an integral part of these consolidated financial statements.

1. INTRODUCTION

JSC ProCredit Bank is a closed joint stock company. The Bank was incorporated and is domiciled in Georgia. As at 31 December 2009 and 2008, the Bank's immediate and ultimate parent company was ProCredit Holding AG.

For supervisory purposes ProCredit Bank qualifies as a bank according to the general banking license number 233 and is therefore supervised by the National Bank of Georgia ("NBG").

The address of its registered office is: 154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia. The Bank has the head office in Tbilisi and 59 branches and outlets in Tbilisi, Kutaisi, Batumi, Gori, Poti, Zugdidi, Kobuleti, Telavi, Rustavi, Sadakhlo, Marneuli, Khashuri, Zestaponi, Ozurgeti, Borjomi and Tsnori.

At 31 December 2009, the Bank had one wholly-owned subsidiary: ProCredit Properties LLC which was formed as a limited liability company under the law of Georgia on 23 July 2007 with the principal activity to hold and manage movable and immovable properties.

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

2. OPERATING ENVIRONMENT

Political and economic conditions in Georgia.

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

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

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

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

Recent volatility in global financial market.

The banking sector has weathered the crisis relatively well, and systemic risks have abated considerably since the beginning of 2009. Banks have retained a solid capital base, reconstituted strong liquidity buffers, and set aside adequate provisions.

2. OPERATING ENVIRONMENT (CONTINUED)

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

The Bank’s management is unable to reliably determine the effects on the Bank's future financial position of any further potential deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. The Bank’s management believes it is taking all the necessary measures to support the sustainability and growth of the Bank’s business in the current circumstances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

JSC ProCredit Bank (“the Bank”) prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS). The Bank’s consolidated financial statements for the year ended 31 December 2009 are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and its predecessor body. Additionally, the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body have been applied.

All amounts are presented in thousands of Georgian Lari (“GEL”), unless otherwise stated.

There was no early adoption of any standard not effective yet.

Measurement basis

These consolidated financial statements have been prepared under the historic cost convention, unless IFRS requires recognition at fair value. A fair value is defined as the amount at which a transaction could be concluded between two knowledgeable, willing parties at arm’s length.

IFRS define a so-called hierarchy of fair value determination which reflects the relative reliability of different ways of obtaining a fair value:

(a) Active market: Quoted price (Level 1)
Observe quoted prices for identical financial instruments in active markets.

(b) Valuation technique using observable inputs (Level 2)
Observe quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets or use valuation models where all significant inputs are observable.

(c) Valuation technique with significant non-observable inputs (Level 3)
Use valuation models where one or more significant inputs are not observable.

Only if the best way of determining the fair value is not available may the next best determination method be applied. If possible, the Bank obtains fair values from quoted market prices; otherwise, the next best available measurement technique is applied.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments measured at fair value for accounting purposes on an ongoing basis include all instruments at fair value through profit or loss and financial instruments classified as available-for-sale. Details on the applied measurement techniques for the balance sheet positions are part of the accounting policies listed below.

Reporting and valuation are made on the going concern assumption.

Consolidated financial statements

Subsidiaries are those companies and other entities (including special purpose entities) in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Bank (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Bank’s policies.

Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. There is no held-to-maturity category. Management determines the classification of financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading (“trading assets”), i.e. the derivatives held, and financial assets designated at fair value through profit or loss at inception. The Bank does not apply hedge accounting.

Financial assets are designated at fair value through profit or loss when they are part of a separate portfolio that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy. The monthly reporting on these portfolios and the included assets to key management personnel is also done on a fair value basis. The fair values reported are usually observable market prices; as a guideline, the Bank prefers to invest in securities for which market prices in active markets can be observed. Only in rare circumstances is the fair value calculated based on current observable market data by using a valuation technique.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss. Subsequently, they are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the profit or loss of the period. Together with interest earned on financial instruments designated as at fair value through profit and loss they are shown as “net result from financial assets at fair value through profit or loss”.

Purchases and sales of financial assets at fair value through profit or loss are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets at fair value through profit or loss are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. At each balance sheet date and whenever there is evidence of potential impairment, the Bank assesses the value of its loans and receivables. Their carrying amount may be reduced as a consequence through the use of an allowance account (see note 10 for details on impairment of loans). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the profit or loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.

Loans are recognised when the principal is advanced to the borrowers. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

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

At initial recognition, available-for-sale financial assets are recorded at fair value plus transaction costs. Subsequently they are carried at fair value. The fair values reported are either observable market prices or values calculated with a valuation technique based on currently observable market data. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in other comprehensive income in the position “revaluation reserve from available-for-sale financial asset”, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss as “gains and losses from available-for-sale financial assets”. Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the profit or loss. Dividends on available-for-sale equity instruments are recognised in the profit or loss when the entity’s right to receive the payment is established.

Purchases and sales of available-for-sale financial assets are recorded on the trade date. The available-for-sale financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

(a) *Financial liabilities at fair value through profit or loss*

The financial liabilities at fair value through profit or loss are divided into two subcategories:

- “Liabilities held for trading” which consist solely of positive fair values arising from derivative financial instruments used for hedging, but not as hedging arrangements under the terms of hedge accounting as defined by IAS 39.
- Financial instruments designated at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

(a) *Functional and presentation currency*
Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements of the Bank are presented in Georgian Lari ("GEL"), which is ProCredit Bank's functional and presentation currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss (trading result).

Monetary items denominated in foreign currency are translated with the closing rate as of the reporting date. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, while other changes in the carrying amount are recognised in other comprehensive income.

Non-monetary items measured at historical cost denominated in foreign currency are translated with the exchange rate as of the date of initial recognition.

Exchange rates

For the balance sheet items the following official exchange rates set by NBG were applied:

	31 December 2009	31 December 2008
GEL/1 US Dollar	1.6858	1.6670
GEL/1 Euro	2.4195	2.3648

Cash and cash equivalents

For the purposes of the balance sheet, cash and cash equivalents comprise cash, balances with less than three months' maturity from the date of acquisition when eligible for discounting with central banks, other money market instruments that are highly liquid and readily convertible to known amounts of cash with insignificant risk of changes in value, and certificates of deposits.

Generally, all cash and cash equivalent items appear at their nominal value. Treasury bills and other money market instruments that qualify as cash equivalents are classified as available-for-sale financial assets and measured at fair value.

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and non-restricted balances with NBG, non-pledged treasury bills and amounts due from other banks.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mandatory reserve deposits with the NBG. Mandatory reserve deposits with the NBG are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations.

Loans and receivables

The amounts reported under receivables from customers consist mainly of loans and advances issued.

In addition to overnight and term deposits, the amounts reported under receivables from banks include current account balances.

All loans and receivables to banks as well as loans and receivables to customers fall under the category "loans and receivables" and are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the profit or loss under net interest income. Impairment of loans is recognised on separate allowance accounts (see note 10).

For the purposes of the cash flow statement, claims to banks with a remaining maturity of less than three months from the date of acquisition are recognised under cash and cash equivalents (see note 7).

Allowance for losses on loans and advances and impairment of available-for-sale financial assets

Impairment of loans and advances

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that impairment of a loan or a portfolio of loans has occurred which influences the future cash flow of the financial asset(s), the respective losses are immediately recognised. Depending on the size of the loan, such losses are either calculated on an individual loan basis or are collectively assessed for a portfolio of loans. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Bank does not recognise losses from expected future events.

- Individually assessed loans and advances

Significant loans are individually assessed for impairment. For such loans, it is assessed whether objective evidence of impairment exists, i.e. any factors which might influence the customer's ability to fulfil his contractual payment obligations towards the Bank

Additionally, the aggregate exposure to the client and the realisable value of collateral held are taken into account when deciding on the allowance for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of asset and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment).

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Collectively assessed loans and advances

There are two cases in which loans are collectively assessed for impairment:
- individually insignificant loans that show objective evidence of impairment;
- the group of loans which do not show signs of impairment, in order to cover all losses which have already been incurred but not detected on an individual loan basis.

For the purposes of the evaluation of impairment of individually insignificant loans, the loans are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days they are in arrears. Arrears of 30 or more days are considered to be a sign of impairment. This characteristic is relevant for the estimation of future cash flows for such assets, based on historical loss experiences with loans that showed similar characteristics.

The collective assessment of impairment for individually insignificant loans and for unimpaired significant loans (collective assessment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics with a comparable risk profile.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether individually significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (impairment for collectively assessed loans).

Reversal of impairment

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

Writing off loans and advances

When a loan is written off according to the internal policies, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in the profit or loss.

Restructured loans

Restructured loans which are considered to be individually significant are provisioned on an individual basis. The amount of the loss is measured as the difference between the restructured loan’s carrying amount and the present value of its estimated future cash flows discounted at the loan’s original effective interest rate (specific impairment). Restructured loans which are individually insignificant are collectively assessed for impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

Impairment of assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In determining whether an available-for-sale financial asset is impaired the following criteria are considered:

- Deterioration of the ability or willingness of the debtor to service the obligation;
- A political situation which may significantly impact the debtor’s ability to repay the loan;
- Additional events that make it unlikely that the carrying amount may be recovered.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exist the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the profit or loss.

Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss at any point thereafter. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

The Bank primarily invests in government securities with fixed or variable interest rates. Impairments on these investments are recognised when objective evidence exists that the government is unable or unwilling to service these obligations.

Derivative financial instruments

Derivatives are initially recognised at the fair value of the consideration given (when acquiring financial assets) or received (when undertaking financial liabilities). Subsequently, derivatives are re-measured at fair value. If possible, fair values are obtained from quoted markets or from recent market transactions. Otherwise, they are appraised via discounted cash flow models or options pricing models, as appropriate. Derivatives with a positive fair value are carried as financial assets and reported under “Financial assets at fair value through profit or loss”. Derivatives with a negative fair value are carried as financial liabilities and are reported under “Financial liabilities at fair value through profit or loss”.

The resulting fair value gain or loss is recognised immediately in the profit or loss for all derivatives. In the Bank, derivatives are used in order to hedge risks, i.e. interest rate risks and currency risks, but the Bank does not apply hedge accounting.

Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of five years. In special cases if licenses have software assurances the expected useful life is seven years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are recognized separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values at the following annual prescribed rates:

– Buildings and other real estate	2%
– Office and computer equipment	20% - 25%
– Other	20%

The assets' residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Both assets that are subject to amortisation and land are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

The Bank does not hold investment property.

Impairment of non-financial assets

Assets that have an indefinite useful life are not depreciated on a scheduled basis but are tested annually for impairment.

Assets that are subject to amortisation are reviewed for indications of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Current income tax
Income tax payable on profits is calculated on the basis of the applicable tax law in the country's jurisdiction and is recognised as an expense in the period in which profits arise.

Deferred income tax
Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements prepared in conformity with IFRS. Deferred tax assets and liabilities are determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither the profit (before tax) for the period according to IFRS, nor the taxable profit or loss.

The tax effects of income tax losses available for carry forward are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged directly to other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently recognised in the profit or loss together with the deferred gain or loss. For informational reasons, the presentation is made on a gross basis.

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

Liabilities to banks and customers and other borrowed funds

Liabilities to banks and customers and other borrowed funds are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest rate method.

All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions for off-balance sheet items

Provisions are recognised if

- there is a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in a settlement is determined by considering the class of obligations as a whole.

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will be no earlier than in one year's time. The increase in the present value of the obligation due to the passage of time is recognised as an interest expense.

Contingent liabilities, which mainly consist of certain guarantees and letters of credit issued for customers, are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the Bank, they are not recognised in the financial statements but are disclosed off-balance sheet unless the probability of settlement is remote.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss which he incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit or loss the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

Any increase in the liability relating to guarantees is taken to the profit or loss under "other operating expenses".

Subordinated debt

Subordinated debt consists mainly of liabilities to shareholders and other international financial institutions which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. There is no obligation to repay early.

Following initial recognition at acquisition cost, the subordinated debt is recognised at amortised cost. Premiums and discounts are accounted for over the respective terms in the profit or loss under "net interest income".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity capital

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the company's shareholders.

Interest income and expense

Interest income and expenses for all interest-bearing financial instruments, except for those classified as at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the profit or loss using the effective interest rate method. Interest income and expense are recognised in the profit or loss in the period in which they arise.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Payments received in respect of written-off loans are not recognised in net interest income.

Capitalisation of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. The Bank capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The commencement date for capitalisation is when (a) the Bank incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Interest or other investment income is not deducted in arriving at the amount of borrowing costs available for capitalisation, except where the Bank obtains specific borrowings for the purpose of acquiring a qualifying asset and has investment income on the temporary investment of funds obtained through such specific borrowings.

Fee and commission income and expenses

Fee and commission income and expenses are recognised on an accrual basis when the service has been provided.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

4. USE OF ASSUMPTIONS AND ESTIMATES

The Bank's financial reporting and its financial result are influenced by accounting policies, assumptions, estimates, and management judgement which necessarily have to be made in the course of preparation of the financial statements.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.

Accounting policies and management's judgments for certain items are especially critical for the Bank's results and financial situation due to their materiality in amount. This applies to the allowances for impairment of loans. A 10% increase or decrease in actual loss experience compared to the collective loss estimates used would result in an increase or decrease in loan impairment losses of GEL 1,222 thousand (2008: GEL 1,379 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually assessed significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of GEL 440 thousand (2008: GEL 682 thousand), respectively.

The principal accounting policies applied in the preparation of these financial statements are set out above. These policies have been consistently applied to all the years presented, unless otherwise stated.

The fiscal year of the Bank is the calendar year.

5. ACCOUNTING DEVELOPMENTS

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

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

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

5. ACCOUNTING DEVELOPMENTS (CONTINUED)

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

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

- ***[IAS 16, Property, Plant and Equipment (and consequential amendments to IAS 7).*** Under the amended standard, entities that routinely sell assets previously held for rental are required to classify such assets as inventories from the point that the assets cease to be leased and become held for sale, while the proceeds from sale are recognised as revenue. The rent and proceeds from sale have to be classified as cash flows from operating activities. The Group amended its accounting policies accordingly.

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

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

5. ACCOUNTING DEVELOPMENTS (CONTINUED)

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

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

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

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

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

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

5. ACCOUNTING DEVELOPMENTS (CONTINUED)

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

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

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

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

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

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Bank does not expect the amended standard to have a material effect on its financial statements.

5. ACCOUNTING DEVELOPMENTS (CONTINUED)

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

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Bank's financial statements as the Bank does not apply hedge accounting.

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

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

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

5. ACCOUNTING DEVELOPMENTS (CONTINUED)

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Bank does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

5. ACCOUNTING DEVELOPMENTS (CONTINUED)

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

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

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

6. COMPARATIVES

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The revised IAS 1, *Presentation of Financial Statements*, which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity makes a retrospective restatement or when it reclassifies items in its financial statements. The opening statement of financial position is presented in these financial statements as a result of changes in presentation made following the adoption of the revised IAS 1 from 1 January 2009, including the introduction of the statement of comprehensive income.

The requirement to present the additional opening statement of financial position, when the entity has made a restatement or reclassification, extends to the information in the related notes. Management considered materiality and concluded that it is sufficient for an entity to present such information only in those notes that have been impacted by a restatement or a reclassification and state in the financial statements that the other notes have not been impacted by the restatement or reclassification. The omission of the notes to the additional opening statement of financial position is therefore, in management's view, not material.

6. COMPARATIVES (CONTINUED)

The effect of reclassifications for presentation purposes was as follows:

in '000 GEL	As originally presented 2008	Reclassification	As reclassified 2008
Profit and loss			
Interest income	96,280	2,966	99,246
Interest expense	(37,295)	(307)	(37,602)
Commission income	6,679	(1,190)	5,489
Commission expense	(2,597)	307	(2,290)
Operating expenses	(51,221)	401	(50,820)
Provision for impairment losses on other transactions	273	(273)	-
Losses net of gains from financial assets and liabilities at fair value through profit or loss	-	(52)	(52)
Other operating income	4,533	(1,852)	2,681
Statement of financial position			
Loans to customers	505,455	(4,173)	501,282
Intangible assets	-	296	296
Other assets	5,021	(918)	4,103
Due to banks	243,245	(221,100)	22,145
Other borrowed funds	8,880	220,644	229,524
Provisions	-	131	131
Other financial liabilities	4,655	(4,218)	437
Subordinated debt	41,420	(166)	41,254

Significant changes in presentation were due to the following:

- Penalty for early repayments of loans of GEL 1,190 thousand (2007: GEL 1,215 thousand) and fines on loans in arrears in the amount of GEL 1,776 thousand (2007: GEL 1,641 thousand) which previously were included in commission income and net other operating income are now presented in the interest income;
- Unamortized balance of disbursement fee in the amount of GEL 4,173 thousand (2007: GEL 3,076 thousand) which previously were included in other financial liabilities are now presented in the loans to customers to improve overall presentation of loans to customers;
- Reclassification of due to other banks in the amount of GEL 221,100 thousand (2007: GEL 153,911 thousand) to other borrowed funds for the better presentation of borrowed funds.

In 2009 the management changed the presentation of statement of cash flows from direct to indirect method as it was required by ProCredit Holding, the sole shareholder. Accordingly, presentation of 2008 statement of cash flows has been reclassified to conform with 2009 presentation. Further, due to reclassification of due to other banks to other borrowed funds described above following reclassification was made in 2008 statement of cash flows:

in '000 GEL	As originally presented 2008	Reclassification	As reclassified 2008
Cash flow from operating activities	(6,698)	(17,149)	(23,847)
Cash flow from financing activities	25,772	17,149	42,921

Any further changes to these financial statements require approval of the Bank's Management who authorised these financial statements for issue.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following items:

in '000 GEL	2009	2008
Cash in hand	46,477	35,542
Balances at NBG excluding mandatory reserves	37,312	31,468
Certificate of Deposits of NBG	9,981	-
Mandatory reserve deposits with NBG	14,169	11,546
Total cash	**107,939**	**78,556**

Sovereign credit risk rating of Government of Georgia assessed by Fitch rating agency during 2009 was short term “B” and long-term “B+” (2008: short term “B” and long-term “B+”).

The following cash equivalents have been considered as cash for the cash flow statement:

in '000 GEL	2009	2008
Cash and cash equivalents	107,939	78,556
Due from other banks with a maturity up to three months (Note 8)	36,441	43,993
Mandatory reserve with NBG, which does not qualify as cash for the statement of cash flows	(14,169)	(11,546)
Cash and cash equivalents for cash flow statement	**130,211**	**111,003**

Interest rate analysis of cash and cash equivalents is disclosed in Note 28.

8. DUE FROM OTHER BANKS

in '000 GEL	2009	2008
Due from other banks in OECD countries	36,318	50,355
Due from other banks in non-OECD countries	788	2,557
Total	**37,106**	**52,912**

The following table details the credit ratings of due from other banks:

in '000 GEL

Neither past due nor impaired	AA	A	BBB	<BBB	Not Rated	Total
31 December 2009	676	12,969	22,788	673	-	**37,106**
31 December 2008	4,186	16,934	28,736	229	2,827	**52,912**

The credit ratings are based on Standard & Poor’s ratings. The amount of GEL 2,827 thousand which was presented as “not rated” in 2008 was fully collected in 2009.

Interest rate analysis is disclosed in Note 28. Information on related party balances is disclosed in Note 32.

9. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

All securities which are not designated as financial assets at fair value through profit or loss are classified as available-for-sale financial assets. This balance sheet item primarily includes securities with fixed interest rates, most of which are treasury bills.

in '000 GEL	2009	2008
Treasury Bills of Government of Georgia	3,922	-
Shares in companies situated in non-OECD countries	435	435
Total available-for-sale financial assets	**4,357**	**435**

Sovereign credit risk rating of Government of Georgia assessed by Fitch rating agency during 2009 was short term “B” and long-term “B+” (2008: short term “B” and long-term “B+”).

Shares in companies situated in non-OECD countries comprise:

in '000 GEL	Ownership interest	At 31 December 2009	Ownership interest	At 31 December 2008
ProCredit Academy in Macedonia	8.33%	236	8.33%	236
JSC Creditinfo Georgia	16.63%	95	16.63%	95
JSC United Clearing Center Georgia	6.25%	54	6.25%	54
JSC American Academy in Tbilisi	5.38%	50	5.38%	50
Total		**435**		**435**

Equity investments are carried at cost of GEL 435 thousand (2008: GEL 435 thousand). The investee has not published recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible. The Bank’s management could not reliably estimate the fair value of the equity investment securities. The Bank does not intend to dispose of these shares in foreseeable futures.

Investment securities available for sale include debt securities with a carrying value of GEL 3,922 thousand (2008: Nil) which are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. Fair value is estimated by reference to the discounted cash flows of the investment using market interest rates on similar instruments issued by Government at the end of the year.

Movements in investment securities available-for-sale

in '000 GEL	Treasury bills of government of Georgia	Shares	Total
Balance at 1 January 2009	-	435	435
Purchases net of discounts	3,920	-	3,920
Interest accrued	2	-	2
Balance at 31 December 2009	**3,922**	**435**	**4,357**

Interest rate analysis for debt securities is disclosed in Note 28.

10. LOANS AND ADVANCES TO CUSTOMERS

Concentration of customer loans by classes and original size were as follows:

in '000 GEL At 31 December 2009	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
Business loans						
loan size up to 10 KUSD	84,935	(2,731)	82,204	15.9%	27,079	42.3%
loan size 10 to 50 KUSD	126,412	(4,897)	121,515	23.7%	6,858	10.7%
loan size 50 to 150 KUSD	96,982	(2,362)	94,620	18.2%	1,905	3.0%
loan size more than 150 KUSD	160,677	(5,150)	155,527	30.1%	1,321	2.1%
Total business loans	**469,007**	**(15,140)**	**453,866**	**87.8%**	**37,163**	**58.1%**
Agricultural loans						
loan size up to 10 KUSD	11,201	(242)	10,959	2.1%	5,332	8.3%
loan size 10 to 50 KUSD	4,388	(178)	4,210	0.8%	245	0.4%
loan size 50 to 150 KUSD	1,764	(27)	1,737	0.3%	24	0.0%
loan size more than 150 KUSD	655	(9)	646	0.1%	5	0.0%
Total agricultural loans	**18,008**	**(456)**	**17,551**	**3.4%**	**5,606**	**8.8%**
Housing loans						
loan size up to 10 KUSD	15,462	(292)	15,170	2.9%	9,340	14.6%
loan size 10 to 50 KUSD	9,850	(255)	9,595	1.8%	562	0.9%
loan size 50 to 150 KUSD	1,549	(22)	1,527	0.3%	33	0.1%
loan size more than 150 KUSD	184	(3)	181	0.0%	4	0.0%
Total housing loans	**27,045**	**(572)**	**26,473**	**5.1%**	**9,939**	**15.5%**
Consumer loans						
loan size up to 10 KUSD	6,852	(107)	6,745	1.3%	9,714	15.2%
loan size 10 to 50 KUSD	383	(6)	377	0.1%	57	0.1%
loan size 50 to 150 KUSD	241	(3)	238	0.0%	5	0.0%
loan size more than 150 KUSD	-	-	-	0.0%	-	0.0%
Total consumer loans	**7,476**	**(116)**	**7,359**	**1.4%**	**9,776**	**15.3%**
Other loans						
loan size up to 10 KUSD	3,353	(93)	3,260	0.6%	967	1.5%
loan size 10 to 50 KUSD	8,322	(233)	8,089	1.6%	517	0.8%
loan size 50 to 150 KUSD	739	(10)	729	0.1%	25	0.0%
loan size more than 150 KUSD	-	-	-	-	-	0.0%
Total other loans	**12,414**	**(336)**	**12,078**	**2.3%**	**1,509**	**2.4%**
Total	**533,949**	**(16,621)**	**517,328**	**100%**	**63,993**	**100.0%**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

in '000 GEL **At 31 December 2008**	**Gross amount**	**Allowance for impairment**	**Net amount**	**Share of total portfolio**	**Number of outstanding loans**	**Share of total number**
Business loans						
loan size up to 10 KUSD	89,320	(5,557)	83,763	16.7%	36,758	55.6%
loan size 10 to 50 KUSD	122,739	(4,951)	117,788	23.5%	4,062	6.1%
loan size 50 to 150 KUSD	85,615	(4,475)	81,140	16.2%	671	1.0%
loan size more than 150 KUSD	162,645	(2,943)	159,702	31.9%	164	0.2%
Total business loans	**460,319**	**(17,926)**	**442,393**	**87.7%**	**41,655**	**62.9%**
Agricultural loans						
loan size up to 10 KUSD	8,781	(1,050)	7,731	1.5%	4,469	6.8%
loan size 10 to 50 KUSD	4,814	(203)	4,611	0.9%	101	0.2%
loan size 50 to 150 KUSD	1,192	(295)	897	0.2%	6	0.0%
loan size more than 150 KUSD	498	(5)	493	0.1%	1	0.0%
Total agricultural loans	**15,285**	**(1,553)**	**13,732**	**3.3%**	**4,577**	**6.9%**
Housing loans						
loan size up to 10 KUSD	15,873	(530)	15,343	3.1%	10,025	15.2%
loan size 10 to 50 KUSD	9,622	(152)	9,470	1.9%	250	0.4%
loan size 50 to 150 KUSD	1,526	(9)	1,517	0.3%	5	0.0%
loan size more than 150 KUSD	757	(7)	750	0.1%	2	0.0%
Total housing loans	**27,778**	**(698)**	**27,080**	**5.4%**	**10,282**	**15.6%**
Consumer loans						
loan size up to 10 KUSD	6,113	(130)	5,983	1.2%	4,590	7.0%
loan size 10 to 50 KUSD	345	(5)	340	0.1%	13	0.0%
loan size 50 to 150 KUSD	364	(5)	359	0.1%	2	0.0%
Total consumer loans	**6,822**	**(140)**	**6,682**	**1.3%**	**4,605**	**7.0%**
Other loans						
loan size up to 10 KUSD	3,556	(138)	3,418	0.7%	4,783	7.2%
loan size 10 to 50 KUSD	7,281	(153)	7,128	1.4%	177	0.3%
loan size 50 to 150 KUSD	779	(5)	774	0.2%	3	0.0%
loan size more than 150 KUSD	77	(2)	75	0.0%	1	0.0%
Total other loans	**11,693**	**(298)**	**11,395**	**2.3%**	**4,964**	**7.5%**
Total	**521,897**	**(20,615)**	**501,282**	**100.0%**	**66,083**	**100.0%**

The following table shows the development of allowance for impairment losses for loans and advances to customers by classes of loans:

in '000 GEL	**Business**	**Agricul-tural**	**Housing**	**Consumer**	**Other**	**Total**
Allowance for loan impairment at 1 January 2008	**13,289**	**1,319**	**535**	**124**	**315**	**15,582**
Provision for loan impairment during the year	6,101	175	221	32	60	**6,589**
Amount written off during the year	(4,427)	(25)	(163)	(38)	(96)	**(4,749)**
Recoveries of assets previously written off	2,963	84	105	22	19	**3,193**
Allowance for loan impairment at 31 December 2008	**17,926**	**1,553**	**698**	**140**	**298**	**20,615**
Provision for loan impairment during the year	1,057	(757)	7	3	1	311
Amount written off during the year	(5,731)	(408)	(225)	(53)	(132)	(6,548)
Recoveries of assets previously written off	1,888	68	92	26	169	2,243
Allowance for loan impairment at 31 December 2009	**15,140**	**456**	**572**	**116**	**336**	**16,621**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

In addition to the allowance for specific impairment losses for receivables for which there is objective evidence of impairment, allowance was formed to cover impairment losses relating to the customer loan portfolio which are incurred but not identified. Composition of allowance for loan impairment was as follows:

in '000 GEL	2009	2008
Allowance for individually significant impaired loans	4,400	6,823
Allowance for individually insignificant impaired loans	4,855	6,610
Allowance for collectively assessed loans	7,366	7,182
Total	**16,621**	**20,615**

Further analysis for each group of loans is detailed in Note 28.

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

in '000 GEL	Business	Agricul-tural	Housing	Consumer	Other	Total
Neither past due nor impaired						
< 10,000 USD	83,264	11,345	15,169	6,481	3,313	119,572
10,000 to 50,000 USD	118,932	4,164	9,590	623.01	8,072	141,381
50,000 to 150,000 USD	92,749	1,267	1,551	242	744	96,553
>150,000 USD – borrowers with credit history of over two years	96,317	398	294	9	63	97,081
>150,000 USD – new borrowers with credit history of less than two years	62,443	379	3	9	0	62,834
- Loans restructured in 2009	7,259	380	315	103	64	8,121
Total neither past due nor impaired	**460,965**	**17,933**	**26,922**	**7,467**	**12,256**	**525,542**
Loans individually determined to be impaired (gross)						
- 30 to 90 days overdue	2,721	46	36	9	59	2,871
- 91 to 180 days overdue	2,500	31	87	-	99	2,717
- 181 to 360 days overdue	2,821	-	-	-	-	2,821
Total individually impaired loans (gross)	**8,042**	**77**	**123**	**9**	**158**	**8,409**
Less impairment provisions	**(15,140)**	**(456)**	**(572)**	**(116)**	**(336)**	**(16,621)**
Total loans and advances to customers	**453,866**	**17,551**	**26,473**	**7,359**	**12,078**	**517,328**

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

in '000 GEL	Business	Agricul-tural	Housing	Consumer	Other	Total
Neither past due nor impaired						
< 10,000 USD	83,688	8,051	15,792	5,474	3,571	116,576
10,000 to 50,000 USD	120,520	4,626	9,552	652	7,241	142,591
50,000 to 150,000 USD	81,131	862	1,527	309	777	84,606
>150,000 USD – borrowers with credit history of over two years	60,379	5	256	217	-	60,857
>150,000 USD – new borrowers with credit history of less than two years	97,532	497	350	120	3	98,502
- Loans restructured in 2008	12,272	858	160	30	-	13,320
Total neither past due nor impaired	**455,522**	**14,899**	**27,637**	**6,802**	**11,592**	**516,452**
Loans individually determined to be impaired (gross)						
- 30 to 90 days overdue	3,249	371	79	20	93	3,812
- 91 to 180 days overdue	1,476	15	62	-	8	1,561
- 181 to 360 days overdue	72	-	-	-	-	72
Total individually impaired loans (gross)	**4,797**	**386**	**141**	**20**	**101**	**5,445**
Less impairment provisions	**(17,926)**	**(1,553)**	**(698)**	**(140)**	**(298)**	**(20,615)**
Total loans and advances to customers	**442,393**	**13,732**	**27,080**	**6,682**	**11,395**	**501,282**

At 31 December 2009, there were no past due but not impaired loans (2008: Nil). Loans in areas of more than 30 days are classified as impaired loans. Loans in arrears with less than 30 days are considered current.

Neither past due nor impaired, but restructured loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated.

At 31 December 2009, accrued interest on impaired loans was GEL 269 thousand (2008: GEL 721). At 31 December 2009, interest accrued on past due loans was GEL 83 thousand (2008: 66 thousand).

For more information on credit risk management and interest rate analysis of loans and advances to customers refer to Note 28. Information about collateral is disclosed in Note 28.

Information on related party balances is disclosed in Note 32.

11. INTANGIBLE ASSETS

The development of the intangible assets is shown in the following table:

in '000 GEL	2009	2008
Software		
Total acquisition costs	989	1,009
Accumulated amortization	(693)	(539)
Net book value as of 1 January	**296**	**470**
Additions	2,992	112
Disposal	-	(132)
Total acquisition costs	**3,981**	**989**
Amortization for the year	(525)	(196)
Disposals	-	42
Accumulated amortization	**1,218**	**693**
Net book value as of 31 December	**2,763**	**296**

12. PROPERTY, PLANT AND EQUIPMENT

The development of property, plant and equipment was as follows:

in '000 GEL	Land & buildings	Lease-hold improve-ments	Assets under const-ruction	Furni-ture and fixtures	IT and other equip-ment	Total
Total acquisition costs	12,308	3,512	1,291	5,403	12,127	34,641
Accumulated depreciation	(852)	(1,405)	-	(2,483)	(5,666)	(10,406)
Net book value at 1 January 2008	**11,456**	**2,107**	**1,291**	**2,920**	**6,461**	**24,235**
Transfers	2,234	911	(3,441)	232	64	-
Additions	14,681	24	2,403	2,421	3,540	23,069
Disposals	(6)	(94)	(74)	(21)	(624)	(819)
Total acquisition costs	**29,217**	**4,353**	**179**	**8,035**	**15,107**	**56,891**
Depreciation for the year	(296)	(533)	-	(1,177)	(2,428)	(4,434)
Disposals	-	82	-	9	446	537
Accumulated depreciation	**(1,148)**	**(1,856)**	**-**	**(3,651)**	**(7,648)**	**(14,303)**
Net book value at 31 December 2008	**28,069**	**2,497**	**179**	**4,384**	**7,459**	**42,588**
Transfers	1,356	170	(1,876)	194	157	1
Additions	273	160	4,942	1,243	1,013	7,631
Disposals	(5)	(251)	(35)	(112)	(712)	(1,115)
Total acquisition costs	**30,841**	**4,432**	**3,210**	**9,360**	**15,565**	**63,408**
Depreciation for the year	(406)	(517)	-	(1,449)	(2,703)	(5,075)
Disposals	-	203	-	103	607	913
Accumulated depreciation	**(1,554)**	**(2,170)**	**-**	**(4,997)**	**(9,744)**	**(18,465)**
Net book value at 31 December 2009	**29,287**	**2,262**	**3,210**	**4,363**	**5,821**	**44,943**

Borrowing costs of GEL 167 thousand were capitalised during 2009 (2008: Nil). The amount was calculated at a rate of 10% which is the interest rate of a loan received in December 2008 and was partially used for financing capital expenditures on the construction of new Head Office building, which commenced in 2009.

13. OTHER ASSETS

At 31 December 2009, other assets were as follows:

in '000 GEL	2009	2008
Accounts receivable – subsequently collected or cleared	1,990	373
Others – subsequently collected	611	-
Total financial assets	**2,601**	**373**
Non-current		
Prepayments for construction	4,445	2,695
Repossessed properties	277	251
Other inventory items	179	302
Current		
Claims from customs and taxes	44	402
Claims on insurances policies	94	80
Total non financial assets	**5,039**	**3,730**
Total	**7,640**	**4,103**

There were reversals of impairment on repossessed properties amounting to GEL 208 thousand in 2009 (GEL 148 thousand in 2008).

Information on related party balances is disclosed in Note 32.

14. DUE TO OTHER BANKS

Due to other banks consist primarily of short-term loans obtained on the interbank market.

in '000 GEL	2009	2008
Banks in OECD countries	484	5,509
Banks in non-OECD countries	9	16,636
Total	**493**	**22,145**

Interest rate analysis is disclosed in Note 28. Information on related party balances is disclosed in Note 32.

15. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Negative market values of derivatives fall under the balance sheet item "financial liabilities at fair value through profit or loss". This item consists solely of the negative fair values of derivative hedging instruments, primarily currency swaps to EUR/USD.

16. CUSTOMERS ACCOUNTS

Customer accounts consist of deposits due on demand, savings deposits and term deposits. The following table shows a breakdown by customer groups:

in '000 GEL	2009	2008
Current accounts	**87,213**	**56,434**
-private individuals	28,538	17,207
-legal entities	58,675	39,227
Savings accounts	**105,239**	**83,292**
-private individuals	91,238	73,431
-legal entities	14,001	9,861
Term deposit accounts	**190,903**	**153,870**
-private individuals	168,083	123,171
-legal entities	22,820	30,699
Other liabilities to customers	**1,038**	**-**
Total	**384,393**	**293,596**

The category "legal entities" includes liabilities to non-governmental organisations (NGOs) and public-sector institutions.

Interest rate analysis is disclosed in Note 28. Information on related party balances is disclosed in Note 32.

The following table shows a breakdown of customer accounts by economic sectors:

in '000 GEL	2009	2008
Private individuals	288,006	232,228
Trade and services	56,715	31,190
Construction	3,200	3,514
Transportation and communications	2,457	1,431
Mining and mineral processing	870	1,229
Agriculture and forestry	445	845
Other	32,700	23,159
Total	**384,393**	**293,596**

At 31 December 2009, included in customer accounts are deposits of GEL 804 thousand (2008: GEL 1,522 thousand) held as collateral for irrevocable commitments under guarantees and letters of credit. Refer to Note 31.

17. OTHER BORROWED FUNDS

Liabilities to international financial institutions are an important source of financing for the Bank. Medium- to long-term loans from international financial institutions are reported under this item.

The following table gives a detailed breakdown for this item.

in '000 GEL **Liabilities with fixed interest rates**	**Due**	**2009**	**2008**
ProCredit Holding AG	up to 4 years	42,755	87,993
Blue Orchard Loan for Development 2006-1 S.A	more than 4 years	33,899	33,521
Global Microfinance Facility ("GMF")	more than 4 years	12,703	12,562
Nederlandse Financierings-Maatschappij voorntwikkelingslanden N.V. ("FMO")	more than 4 years	9,813	14,555
Societe d'investissement a capital variable ("SICAV")	up to 4 years	8,549	8,454
Kreditanstalt für Wiederaufbau ("KFW")	more than 4 years	6,595	10,413
Ministry of Economic Development of Georgia	more than 4 years	5,018	5,018
Credit Suisse Microfinance Fund Management Company ("CSMFMC" (ResponsAbility))	up to 4 years	4,286	4,238
Ministry of Finance of Georgia	more than 4 years	3,732	3,862
International Finance Corporation ("IFC")	more than 4 years	-	851
Loans from other banks and financial institutions	more than 4 years	-	5,835
Total liabilities with fixed interest rates		**127,350**	**187,302**
Liabilities with variable interest rates			
Kreditanstalt für Wiederaufbau ("KFW")	more than 4 years	20,172	-
Black Sea Trade and Development Bank ("BSTDB")	up to 3 years	17,128	17,081
European Bank for Reconstruction and Development ("EBRD")	up to 3 years	-	25,141
Total liabilities with variable interest rates		**37,300**	**42,222**
Total		**164,650**	**229,524**

Interest rate analysis is disclosed in Note 28. Information on related party balances is disclosed in Note 32.

18. OTHER FINANCIAL LIABILITIES

in '000 GEL	**2009**	**2008**
Accounts payable	832	-
Liabilities to employees	36	72
Dividends payable	86	86
Others	165	279
Total	**1,119**	**437**

Accounts payable include GEL 695 thousand (2008: nil) payable to a software vendor. According to the terms of the contract with the vendor, the settlement of the liability should take place at the end of 2010.

19. PROVISIONS FOR OFF-BALANCE SHEET ITEMS

in '000 GEL	2009	2008
Provisions for off-balance sheet items	109	131
Total	**109**	**131**

Movement in provision during the year was as following:

in '000 GEL	2009	2008
As at 1 January	131	146
Provision during the year	193	266
Releases of unused provision	(215)	(281)
As at 31 December	**109**	**131**

The provisions consist mainly of provisions for off-balance sheet items, e.g. guarantees.

20. INCOME TAXES

Income tax expenses recorded in profit and loss for the year comprises the following.

in '000 GEL	2009	2008
Current taxes	1,904	2,047
Deferred tax	1,717	528
Income tax expense for the year	**3,621**	**2,575**

The income tax rate applicable to the majority of the Bank's 2009 income is 15% (2008: 15%). The income tax rate applicable to the majority of income of subsidiary was 15% (2008: 15%). Reconciliation between the expected and the actual taxation charge is provided below:

in '000 GEL	2009	2008
Profit before tax	**23,442**	**16,153**
Theoretical tax charge at statutory rate of 15% (2008: 15%)	3,516	2,423
Tax effect of items which are not deductible or assessable for taxation purposes:		
- non-taxable income	(6)	(735)
- non-tax deductable expenses	111	887
Income tax expense for the year	**3,621**	**2,575**

20. INCOME TAXES (CONTINUED)

Differences between IFRS and statutory taxation regulations in Georgia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2008:15%).

in '000 GEL

	31 December 2009	Charge to profit and loss	31 December 2008	Charge to profit and loss	31 December 2007
Provisions for loan impairments	1,901	1,623	278	278	-
Other temporary differences	145	94	52	250	(198)
Total deferred tax liability/(asset) - current	**2,046**	**1,717**	**330**	**528**	**(198)**

21. SUBORDINATED DEBT

The subordinated debt can be broken down as follows:

in '000 GEL

Received from	Due	2009	2008
Overseas Private Investment Corporation ("OPIC")	more than 4 years	**25,321**	-
Nederlandse Financierings-Maatschappij voorntwikkelingslanden N.V. ("FMO")	more than 4 years	**17,072**	**16,564**
ProCredit Holding AG	more than 4 years	4,604	4,552
ProCredit Holding AG	more than 4 years	4,546	4,494
ProCredit Holding AG	more than 4 years	3,372	3,334
ProCredit Holding AG	more than 4 years	9,271	9,169
Sub-total: ProCredit Holding AG	more than 4 years	**21,793**	**21,549**
Kreditanstalt für Wiederaufbau (the "KFW")	up to 3 years	**3,456**	**3,141**
Total		**67,642**	**41,254**

Creditors' claims to repayment of these liabilities are subordinated to the claims of other creditors. There is no obligation to repay early. In the case of liquidation or insolvency, they will only be paid after the claims of all non-subordinated creditors have first been satisfied.

Interest rate analysis is disclosed in Note 28. Information on related party balances is disclosed in Note 32.

22. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2009 the shareholder structure was as follows:

in '000 GEL

Shareholder	31 December 2009			31 December 2008		
	Size of stake in %	**Number of shares**	**Amount Share capital**	**Size of stake in %**	**Number of shares**	**Amount Share capital**
ProCredit Holding AG (PCH)	100.00%	11,770,000	58,850	93.89%	11,051,000	55,253
IPC GmbH	-	-	-	6.11%	719,000	3,597
Total	**100%**	**11,770,000**	**58,850**	**100%**	**11,770,000**	**58,850**

The par value per voting share and per non-voting share is GEL 5.00. The IPC GmbH shares were purchased by PCH in 2009.

in '000 GEL	Number of ordinary shares issued	Share capital Amount	Share premium Amount
At 31 December 2007	9,786,300	48,932	6,293
Issue of shares	1,983,700	9,918	5,300
At 31 December 2008	**11,770,000**	**58,850**	**11,593**
Issue of shares	-	-	-
At 31 December 2009	**11,770,000**	**58,850**	**11,593**

At 31 December 2009 dividends declared and distributed on a pro rata basis amounted to GEL 11,750 thousand (2008: GEL 9,000 thousand).

23. NET INTEREST INCOME

Included within "net interest income" are interest income and expenses and, in addition, the unwinding of premiums and discounts on financial instruments at amortised cost.

in '000 GEL

Interest and similar income	2009	2008
Interest income from loans and advances to customers	113,785	94,452
Interest income from cash and cash equivalents and due to other banks	1,220	4,794
Interest income from available-for-sale assets	3	-
Total interest income	**115,008**	**99,246**
Interest and similar expenses		
Interest expenses on customer accounts	(23,515)	(18,269)
Interest expenses on borrowings to international financial institutions	(15,045)	(14,635)
Interest expenses on subordinated debt	(4,168)	(2,089)
Interest expenses on due to other banks	(2,031)	(2,609)
Total interest expenses	**(44,759)**	**(37,602)**
Net interest income	**70,249**	**61,644**

24. FEE AND COMMISSION INCOME AND EXPENSES

in '000 GEL **Fee and commission income**	**2009**	**2008**
Payment transfers and cash transactions	4,038	3,430
Debit/credit cards issuance fee	738	690
Letters of credit and guarantees	266	161
Account maintenance fee	139	155
Internet Bank fee	101	77
SMS service fee	42	4
Other fee and commission income	539	972
Total fee and commission income	**5,863**	**5,489**
Fee and commission expenses		
Debit/credit cards issuance fee	(1,707)	(1,304)
Account maintenance fee	(447)	(758)
Payment transfers and transactions	(259)	(102)
Letters of credit and guarantees	(66)	(86)
Other fee and commission expenses	(22)	(40)
Total fee and commission expenses	**(2,501)**	**(2,290)**
Net fee and commission income	**3,362**	**3,199**

The item “other fee and commission income” consists of transactions carried out on behalf of third parties, e.g. Western Union. “Other fee and commission expenses” consists primarily of fee expenses related to the card business.

25. GAIN LESS LOSSES FROM TRADING IN FOREIGN CURRENCY AND FOREIGN EXCHANGE TRANSLATION LOSSES

Gains less losses from trading in foreign currency refer to the results of foreign exchange dealings with and for customers. The Bank does not engage in any foreign currency trading on its own account.

Foreign exchange translation losses net of gains include the result from foreign currency hedging operations and unrealised foreign currency revaluation effects. The Bank does not apply hedge accounting as defined by IAS 39.

26. OTHER OPERATING INCOME AND EXPENSE

Other operating income includes as its main positions income from repossessed property in the amount of GEL 622 thousand (2008: GEL 1,693 thousand).

Other operating expenses includes as its main positions expenses for disposal of property in the amount of GEL136 thousand (2008: GEL 56 thousand) and expenses for provision on off-balance items in the amount of GEL 193 thousand (2008: GEL 266 thousand).

27. PERSONNEL AND OTHER ADMINISTRATIVE EXPENSES

Personnel expenses can be broken down as follows:

in '000 GEL	2009	2008
Salary expenses	27,629	25,501
Other personnel expenses	2,136	1,514
Total	**29,765**	**27,015**

Administrative expenses include the following items:

in '000 GEL	Notes	2009	2008
Depreciation/amortization of property, plant and equipment and intangible assets including leasehold improvements	11, 12	5,600	4,621
Office rent		4,393	3,270
Marketing, advertising and entertainment		2,221	2,666
Communication and IT expenses		1,967	1,944
Consulting service		1,639	1,519
Security service		1,544	1,660
Recruitment and other personnel-related expenses		1,536	1,238
Office supplies		1,193	1,284
Other services		1,014	243
Construction, repairs and maintenance		804	523
Transport		699	1,091
Other administrative expenses		2,082	3,746
Total		**24,692**	**23,805**

Of the total personnel and administrative expenses, expenses of GEL 1,900 thousand were incurred for staff training (2008: GEL 708 thousand).

28. FINANCIAL RISK MANAGEMENT

Management of the Overall Bank Risk Profile – Capital Management

Objectives

The capital management of the Bank has the following objectives:

- Full compliance with external capital requirements set by the regulator of the banking sector in Georgia.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the Bank to implement its plans for continued growth while following its business strategy as a "neighbourhood bank".

Processes and Procedures

The capital management of the Bank is ruled by the Bank Policy on Capital Management and the Bank Policy on Risk Bearing Capacity. To ensure that the above stated objectives are met, the Bank uses four indicators. Aside from regulatory and Basel II capital ratios, the leverage ratio and risk bearing capacity are monitored on a monthly basis by the risk management department of the Bank and by the ProCredit Holding Group's Risk Management Committee.

Compliance with external and internal capital requirements

External minimum capital requirements are imposed and monitored by the local banking supervision authorities of Georgia. Local supervision is based on stand-alone financial statements according to Georgian accounting rules.

As at 31 December 2009, the Bank was in compliance with regulatory capital requirements capital adequacy ratios imposed by NBG according to the guidelines of the Basel Committee (Basel I).

The following table shows the capital adequacy ratios of the Bank as calculated in accordance with NBG requirements:

As at 31 December	**2009**	**2008**
Tier 1 Capital /Risk Weighted Assets (required to be above 8%)	9.39%	8.92%
Tier 1 + Tier 2 Capital /Risk Weighted Assets (required to be above 12%)	16.48%	15.57%

Additionally, capital adequacy is monitored by using a uniform capital adequacy calculation across ProCredit Holding Group according to the guidelines of the Basel Committee (Basel II).

The following table shows the Basel II capital adequacy ratios of the Bank:

As at 31 December Calculation based on Basel II	**2009**	**2008**
Tier 1 Capital /Risk Weighted Assets	19.35%	17.17%
Tier 1 + Tier 2 Capital /Risk Weighted Assets	30.28%	25.74%

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Based on guidance from ProCredit Holding AG, the Bank divides its regulatory capital into Tier 1 capital and Tier 2 capital to monitor capital adequacy.

in '000 GEL	2009	2008
Ordinary share capital	58,850	58,850
Share premium	11,593	11,593
Retained earnings*	30,413	22,342
Less other intangibles	(2,763)	(296)
Tier I capital	**98,093**	**92,489**
Subordinated loans	49,046	39,385
Other inherent loss allowance	6,335	6,732
Tier II capital	**55,381**	**46,117**
Total regulatory capital	**153,474**	**138,606**

* less (proposed) distributed dividend.

The Bank uses a combination of equity and subordinated debt provided by ProCredit Holding AG and other financial institutions for capital management.

In respect of the leverage of the Bank, an upper limit for the ratio of total liabilities to total equity (leverage ratio) was introduced by ProCredit Holding AG in 2009. According to the new requirements, the leverage of the Bank should not exceed a ratio of 18 with a target ratio of below 15. At 31 December 2009 the ratio was as follows:

	2009	2008
Leverage ratio	4.9	5.5

Risk Bearing Capacity

In addition to regulatory capital ratios, the Bank assesses its capital adequacy by using the concept of risk bearing capacity to reflect the specific risk profile of the Bank, i.e. comparing the potential losses arising from its operation with the Bank's risk bearing capacity.

The risk taking potential of the Bank is defined as the equity (net of intangibles) plus subordinated debt, which amounted to GEL 165 million as at 31 December 2009 (2008: GEL 133 million). The Resources Available to Cover Risk (RAtCR) was set at 60% of the risk-taking potential, i.e. GEL 98 million. The table below shows the distribution of the RAtCR among the different risk categories as determined by the ProCredit Holding Group's Risk Management Committee and the level of utilisation for the Bank as at 31 December 2009.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk Factor	Risk Detail	Limit (in %)	Limit (in '000 GEL)	Actual (in '000 GEL)	Limit Used (in % of limit)
Credit Risk (Clients)		25.0%	41,188	7,297	4.4%
Counterparty Risk	Commercial Banks	1.0%	1,648	503	0.3%
	Central Banks	9.0%	14,828	4,616	2.8%
Market Risk	Interest Rate Risk	10.0%	16,475	12,476	7.6%
	Currency Risk	2.5%	4,119	2,538	1.5%
Operational Risk		12.5%	20,594	7,423	4.5%
Resources Available to Cover Risk		**60.0%**	**98,852**	**34,853**	**21.1%**

The economic capital required to cover operational risk is calculated according to the Basel II standard approach

Credit Risk

Credit risk is defined as the danger that the party to a credit transaction will not be able, or only partially able, to meet its contractually agreed obligations towards the Bank. Credit risk arises from customer credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk. It is further divided into credit default risk and credit portfolio risk in order to facilitate focused risk management. Credit risk is the single largest risk the Bank faces.

The following table shows the maximum exposure to credit risk:

in '000 GEL	2009	2008
Due from other banks	**37,106**	**52,912**
Investment securities available-for-sale		
Fixed interest rate securities (Treasury Bills)	3,922	-
Investment securities available-for-sale	**3,922**	**435**
Loans and advances to customers		
Loans and advances to customers	533,949	521,897
Allowance for impairment	(16,621)	(20,615)
Loans and advances to customers	**517,328**	**501,282**
Other financial assets	**2,601**	**373**
Off balance sheet commitments	**16,222**	**18,951**

Maximum credit exposure of the loans and advances to customers by classes are disclosed further in this Note.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit default risk from customer credit exposures

The Bank defines credit default risk from customer credit exposures as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.
The management of credit default risk from customer credit exposures is based on a thorough implementation of the ProCredit Holding Group's lending principles:

- analysis of the debt capacity of the Bank's borrowers
- documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties
- avoidance of over indebting the Bank's borrowers
- building a personal and long-term relationship with the borrowers and maintaining regular contact
- monitoring of loan repayment
- practising tight arrears management
- exercising strict collateral collection in the event of default
- investing in well-trained and highly motivated staff
- implementing carefully designed and well-documented processes

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures. The processes are distinguished mainly in terms of segregation of duties; the information collected from the clients, ranging from audited financial statements to self-declarations; the key criteria for credit exposure decisions based on the financial situation of the borrower; in particular for individually insignificant credit exposures, the liquid funds and character of the borrower; and the collateral requirements.

All credit decisions are taken by a credit committee.

Loans in arrears are defined as loans for which contractual interest and/or principal payments are overdue. Once arrears occur, the Bank rigorously follows-up on the non-repayment of credit exposures, and identifies any potential for default on a credit exposure. Recovery and collection efforts are performed by specialised employees, typically with either a lending or legal background.

The Bank monitors the quality of the loan portfolio through the portfolio at risk (PAR) on an ongoing basis. PAR is defined as all loan exposures outstanding with one or more payment of interest or principal in delay by more than 30 days. This measure is chosen since the vast majority of all loans have fixed instalments with monthly payment of principal and interest. Exceptions are seasonal agricultural loans and investment loans, which typically have a grace period of up to six months. No collateral is deducted and no any other exposure-reducing measures are applied when determining the PAR.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Additionally, the quality of credit operations is assured by a credit controlling unit which is responsible for monitoring the Bank’s credit operations and compliance with, in form and substance, with the lending policy and procedures through on-site checks and system screening.

in '000 GEL	Loan portfolio	PAR (> 30 days)	PAR as % of loan portfolio
At 31 December 2009	533,949	9,354	1.76%
At 31 December 2008	521,897	6,562	1.27%

Restructuring of credit exposures are generally necessitated by economic or payment problems encountered by the borrower. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired:

The Bank regularly analyses the level of credit exposure defaults it is expected within a given year, based on past experience.

The collateral can be classified into the following categories:

in ‘000 GEL

At 31 December 2009	Real Estate	Guarantees	Inventories	Other	Total
Business	268,258	63,323	133,306	4,120	**469,007**
Agricultural	12,511	5,163	255	79	**18,008**
Housing	21,836	4,764	77	368	**27,045**
Consumer	1,787	5,291	61	337	**7,476**
Other	3,078	6,984	26	2,326	**12,414**
Total	**307,469**	**85,525**	**133,725**	**7,230**	**533,949**

in ‘000 GEL

At 31 December 2008	Real Estate	Guarantees	Inventories	Other	Total
Business	285,492	94,842	55,809	24,176	**460,319**
Agricultural	10,456	1,544	3103	182	**15,285**
Housing	24,041	3,363	213	161	**27,778**
Consumer	2,068	4,643	68	43	**6,822**
Other	3,613	5,394	285	2,401	**11,693**
Total	**325,670**	**109,786**	**59,478**	**26,963**	**521,897**

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

The policy on the treatment of repossessed property requires that all assets obtained due to customers' defaults to be sold to third parties in order to avoid any conflict of interest arising from the below-market valuation of collateral. The following table presents the estimated net realizable value of repossessed property as assessed by Bank's collection officers:

in '000 GEL	2009	2008
Real estate	104	11
Inventory	163	177
Others	10	63
Total	**277**	**251**

Credit portfolio risk from customer lending

Credit portfolio risk is naturally limited by the small and very small credit exposures and the broad economic sector diversification of the loan portfolio. The loan portfolio of the Bank consists of a large number of very small exposures. Medium loan portfolio, i.e. larger credit exposures exceeding the threshold of USD 150,000, is not a major strategic focus. Nevertheless, the Bank processes certain larger credit exposures applications, mainly from existing borrowers growing their business strongly over time. Thus, larger exposures involve borrowers who have a long-standing credit history with the Bank. The medium sized loan portfolio of the Bank was GEL 161 million as at 31 December 2009 (2008: GEL 164 million).

The structure of the loan portfolio is regularly reviewed within the Bank in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors) and, if necessary, limit the exposure towards certain sectors of the economy. Maximum credit exposure of the loan portfolio by limits and classes was as following:

in '000 GEL At 31 December 2009	Business	Agricultural	Housing	Consumer	Other	Total
< 10,000 USD	84,935	11,201	15,462	6,852	3,353	121,803
10,000 to 50,000 USD	126,412	4,388	9,850	383	8,322	149,355
50,000 to 150,000 USD	96,982	1,764	1,549	241	739	101,275
>150,000 USD	160,677	655	184	-	-	161,516
Total	**469,007**	**18,008**	**27,045**	**7,476**	**12,414**	**533,949**

in '000 GEL

At 31 December, 2008	Business	Agricultural	Housing	Consumer	Other	Total
< 10,000 USD	89,320	8,781	15,873	6,113	3,556	123,643
10,000 to 50,000 USD	122,739	4,814	9,622	345	7,281	144,801
50,000 to 150,000 USD	85,615	1,192	1,526	364	779	89,476
>150,000 USD	162,645	498	757	-	77	163,977
Total	**460,319**	**15,285**	**27,778**	**6,822**	**11,693**	**521,897**

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank follows a guideline that limits concentration risk in the loan portfolio by ensuring that large credit exposures (above USD 800,000) require the approval by the ProCredit Holding Group's Risk Management Committee.

Larger credit exposures are particularly well analysed and monitored by responsible employees from the credit department through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Committee of the Bank. Information about any related parties is typically collected prior to lending.

Individually significant credit exposures are closely monitored by the Credit Committee of the Bank. For such credit exposures, it is assessed whether objective evidence of impairment exists, including:

- Borrower's financial position (cash flow constraints)
- Quality of Collateral (existence, value, accessibility)
- Level of Management (experience, vision, financial accounting)
- Potential or existing significant losses on loans disbursed to a specific sector, field or region;
- Negative trends in sectors, fields or regions in which the Bank has a high concentration of assets;
- Other circumstances relating to the borrower's financial situation or the Bank's policy

The net realisable value of collateral held is taken into account in determining the allowance for impairment.

Fair value of collateral for individually impaired loans was as follows:

At 31 December 2009	**Real Estate**	**Inventories**	**Other**	**Total:**
Business	6,704	118	6,616	**13,438**
Agricultural	6	-	53	**59**
Housing	42	-	-	**42**
Other	68	-	-	68
Total	**6,820**	**118**	**6,669**	**13,607**

At 31 December 2008	**Real Estate**	**Inventories**	**Other**	**Total**
Business	4,034	150	23,153	**27,337**
Housing	-	-	43	**43**
Consumer	-	-	-	**0**
Other	9	1	-	10
Total	**4,043**	**151**	**23,196**	**27,390**

The fair value of residential real estate at the end of the reporting period was estimated by indexing the values determined by the Bank's internal credit department staff at the time of loan inception for the average increases in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the Bank's credit department using the Bank's internal guidelines.

According to credit policy, very small credit exposures are issued without being fully collateralised by solid collateral. Instead such loans may be secured by guarantees from third parties. Credit exposures with a higher risk profile are covered with solid collateral, typically real estate. As the majority of credit exposures are fixed instalment loans of rather short maturity, the fair value of collateral usually decreases substantially more slowly than the outstanding loan amount, and therefore, for small loans, the Bank does not monitor fair value subsequent to loan issue.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Individually significant credit exposures for which there is no need for an individual impairment allowance are covered by collective assessment allowances.

For individually insignificant credit exposures which show objective evidence of impairment, i.e. which are in arrears for more than 30 days (as well as insignificant restructured credit exposures not being in arrears but qualified as impaired); the impairment is determined depending on the number of days in arrears. In addition, individual credit exposures which are regarded as insignificant, or groups of individually insignificant credit exposures, may be classified as impaired if events, such as political unrest, a significant economic downturn, a natural disaster or other external events occur in the country.

Credit risk from interbank placements and issuer risk

Credit risk from interbank placements and securities is subdivided into:

- principal risk – the risk of losing the amount given to the counterparty because of the counterparty's failure to repay the principal in full amount on time (counterparty default)
- replacement risk – the risk of loss of an amount equal to the incurred cost of replacing an outstanding deal with an equivalent one on the market
- settlement risk – the risk of loss due to the failure of a counterparty to honour its obligation to deliver assets as contractually agreed
- issuer risk – the probability of loss resulting from the default and insolvency of the issuer of a security

Exposures to the NBG also represent counterparty risk and are measured and reported as such. However, the exposure mainly results from the deposit and payment business of the Bank as well as the individual policy of NBG and is thus beyond Bank's direct control. The Bank seeks to minimise its exposure to counterparty risk by:

- completing a counterparty approval process before executing a transaction with any counterparty
- limiting the Bank's exposure to any single counterparty or group of counterparties
- reducing the number of counterparties to a manageable level.

Analysis of counterparty risk is typically performed by the risk management department of the Bank in collaboration with the treasury department.

In order to limit the maximum risk exposure towards any one counterparty or group of related counterparties, the Bank's exposure to one counterparty is not to exceed 10% of its regulatory capital for non-OECD and 25% for OECD banking groups, unless approved by the ProCredit Holding Group's Risk Management Committee.

Interbank placements are of very short maturity, typically up to 3 months, which further reduces the incurred risk in those transactions. Investments in securities for liquidity reasons (T-bills or Certificates of Deposits) are made with the local government or NBG. As a Bank policy, there is no trading in such instruments. All large placements are approved by the ALCO.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Risk

For the Bank liquidity risk has two dimensions. In the narrowest sense it is the danger that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner (risk of insolvency). In a broader sense it is also the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates (funding risk).

The liquidity risk management (LRM) system of the Bank is adapted to its specific characteristics. On one hand, the Bank was founded as lending institution and financial intermediary for ordinary people. Therefore the Bank typically has a loan portfolio that is the largest single component on the asset side, and is primarily funded through locally mobilised deposits. The loan portfolio is characterised by a high concentration of short- and medium-term loans to micro and small businesses. The loans are disbursed as annuity term loans and have very low default rates (high degree of predictability of cash flows). Since deposits are the Bank's primary source of financing to fund loan portfolio growth, the dependency on capital market instruments is low.

On the other hand, the Bank operates in a so called "transition economy", where a stable financial market is still emerging. Money markets are underdeveloped and can be unreliable if the local macro environment becomes unfavourable. Customer behaviour can also be more volatile and especially in situations of economic or political crisis, significant outflows of liquidity can occur. The Bank therefore places great emphasis on establishing strong relationships with their deposit clients.

The key principles/tasks of the Bank's LRM are as follows:

- to ensure appropriate levels of liquidity
- to monitor liquidity and funding on an ongoing basis to ensure that the approved business targets are met in a manner that does not compromise the risk profile of the Bank

According to the standards set at the ProCredit Holding Group's level the Bank is required to use to identify, assess, manage and monitor its liquidity and funding risk, and communicate the resulting information to the ProCredit Holding Group to support the assessment of the liquidity and funding risk. This is done in the form of the Bank's Liquidity Risk Management Policy.

The treasury department manages the liquidity situation on a daily basis. Liquidity risk is monitored in the regular ALCO meetings, in which members of the key management personnel participate. The risk management department is responsible for controlling and monitoring liquidity risk, including ensuring that it is in line with the Bank's LRM Policy and the limits which it sets. In addition, the risk management department is also responsible for implementation of the measures defined by the ALCO.

The Bank manages liquidity risk on an expected maturities basis, especially as regards customer accounts. The assumptions have been defined so as to ensure that the Bank is able to sustain a 20% net outflow of deposits within the next 30 days. On an operational level, the gap report is broken down into more time buckets and split into the most important currencies (EUR and/or USD and local currency). The liquidity situation is monitored on a cash flow basis for a forecast period of three months.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table shows the remaining contractual maturities of the financial assets and financial liabilities of the Bank. The remaining contractual maturity is defined as the period between the balance sheet date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

in '000 GEL **At 31 December 2009**	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**	**Total**
Financial assets							
Cash and cash equivalents	107,939	-	-	-	-	-	**107,939**
Due from other banks	37,106	-	-	-	-	-	**37,106**
Loans and advances to customers	38,829	61,293	220,440	161,653	178,103	60,765	**721,083**
Investment securities available-for-sale	-	-	3,922	-	-	435	**4,357**
Gross settled swaps and forwards	16,937	-	26,344	-	-	-	**43,281**
Other financial assets	2,288	5	308	-	-	-	**2,601**
Total	**203,099**	**61,298**	**251,014**	**161,653**	**178,103**	**61,200**	**916,367**
Financial liabilities							
Due to other banks	493	-	-	-	-	-	**493**
Customers accounts	195,741	70,956	118,291	12,338	1,490	5,385	**404,201**
Other borrowed funds	3,492	1,667	49,063	71,790	56,139	3,034	**185,185**
Gross settled swaps and forwards	17,799	-	26,000	-	-	-	**43,799**
Guarantees and letters of credit	106	1,530	3,499	195	131	-	**5,461**
Commitments to extend credit	10,761	-	-	-	-	-	**10,761**
Other financial liabilities	424	-	695	-	-	-	**1,119**
Subordinated debt	-	655	4,259	4,913	22,174	71,586	**103,587**
Total potential future payments for financial obligations	**228,816**	**74,808**	**201,807**	**89,236**	**79,934**	**80,005**	**754,606**
Open position	**(25,717)**	**(13,510)**	**49,207**	**72,417**	**98,169**	**(18,805)**	
Cumulative liquidity gap	**(25,717)**	**(39,227)**	**9,980**	**82,397**	**180,566**	**161,761**	

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

in '000 GEL At 31 December 2008	Up to 1 month	1 - 3 months	3 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total
Financial Assets							
Cash and cash equivalents	78,556	-	-	-	-	-	**78,556**
Due from other banks	50,369	-	2,631	-	-	-	**53,000**
Loans and advances to customers	34,285	65,139	203,249	154,191	152,539	51,315	**660,718**
Investment securities available-for-sale	-	-	-	-	-	435	**435**
Other financial assets	-	-	-	373	-	-	**373**
Total Financial assets	**163,210**	**65,139**	**205,880**	**154,564**	**152,539**	**51,750**	**793,082**
Financial liabilities							
Due to other banks	5,509	14,300	2,336	-	-	-	**22,145**
Customers accounts	101,531	90,965	87,974	20,728	963	2,991	**305,152**
Other borrowed funds	48,240	3,413	23,686	78,308	101,396	4,330	**259,373**
Guarantees and letters of credit	234	2,065	3,748	9	486	**-**	**6,542**
Commitments to extend credit	19	3,544	8,796	50	-	**-**	**12,409**
Other financial liabilities	86	351	-	-	-	-	**437**
Subordinated debt	72	387	3,072	4,146	15,087	55,407	**78,171**
Total Financial liabilities	**155,691**	**115,025**	**129,612**	**103,241**	**117,932**	**62,728**	**684,229**
Open position	**7,519**	**(49,886)**	**76,268**	**51,323**	**34,607**	**(10,978)**	
Cumulative Liquidity Gap	**7,519**	**(42,367)**	**33,901**	**85,224**	**119,831**	**108,853**	

The Bank does not use the above maturity analysis, which includes future contractual interest, for the purpose of managing liquidity risk. Instead, the Bank monitors expected remaining contractual maturities and the resulting expected liquidity gap as follows:

in '000 GEL **At 31 December 2009**	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**	**Total**
Total financial assets	194,523	44,917	189,775	116,205	125,889	44,419	**715,728**
Total financial liabilities	217,119	69,216	177,409	77,256	57,829	64,914	**663,743**
Net liquidity gap based on expected maturities	**(22,596)**	**(24,299)**	**12,366**	**38,949**	**68,060**	**(20,495)**	
At 31 December 2008							
Total financial assets	155,458	51,545	157,225	119,126	114,101	40,276	**637,731**
Total financial liabilities	112,653	67,045	105,419	76,166	104,837	125,280	**591,400**
Net liquidity gap based on expected maturities	**42,805**	**(15,500)**	**51,806**	**42,960**	**9,264**	**(85,004)**	

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Funding Risk

The business plan, which is reviewed annually, serves as the basis for determining medium-term funding needs in regard to both equity and debt financing for the Bank. If unusual circumstances arose and the Bank proved not to have sufficient liquid funds, ProCredit Holding would serve as a “lender of last resort”. The ProCredit Holding keeps a liquidity reserve available for this purpose.

Funding risk has become a more prominent issue due to the recent developments on the international capital markets, which have become less liquid and are now exhibiting increased risk margins. The Bank still considers funding risk to be low due to strong reliance on customer deposits as well as the fact that the Bank continues to access funding from various international sources.

Market Price Risk

Market price risk for the Bank is defined as currency risk and interest rate risk.

Currency Risk

Financial assets and liabilities of the Bank are denominated in more than one currency. Hence, the Bank is exposed to exchange rate movements if it has open currency positions.

The Bank’s Foreign Exchange Risk Management Policy sets limits for the Bank on positions in foreign currency. As a matter of principle, the Bank aims at closing open currency positions, and does not engage in proprietary trading. Derivatives may only be used for hedging purposes to close positions of the Bank (apart from being a service for customers and used for liquidity purposes). Approved foreign exchange derivatives are currency forwards (including non-deliverable forwards) and currency swaps.

The following rules apply to the Bank’s currency risk management:

- To match the currencies of financial assets and liabilities so as to protect the Bank against unforeseen currency fluctuations. If such matching is not possible, derivative financial instruments shall be used to the extent possible to close the gaps.
- To protect equity that is denominated in local currency from a significant and lasting devaluation, the Bank may create a long position in EUR/USD. If there are strong indications that the local currency will depreciate rapidly, the General Risk Management Committee may decide to open a strategic currency position in EUR/USD and must report this decision immediately to the ProCredit Holding market risk management unit.
- The foreign currency exposure is monitored on a daily basis (treasury department) with the aim of closing any open positions (except strategic long EUR/USD positions).
- The establishment of foreign currency positions for speculative purposes is not permitted.
- The use of hedging instruments is quarterly reviewed including through a profit and loss analysis of such positions.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

in '000 GEL **As at 31 December 2009**	**EUR**	**USD**	**Other currencies**	**Local currency**	**Total**
Assets					
Cash and cash equivalents	14,252	29,632	115	63,940	107,939
Due from other banks	23,223	13,654	208	21	37,106
Debt investment securities available-for-sale	-	-	-	3,922	3,922
Loans and advances to customers	12,595	392,385	-	112,348	517,328
Other financial assets	270	1,984	-	347	2,601
Total assets	**50,340**	**437,655**	**323**	**180,578**	**668,896**
Open forward position (assets)	**16,937**	**26,344**	**-**	**-**	
Liabilities					
Due to other banks	-	484	-	9	493
Customers accounts	66,613	217,875	287	99,618	384,393
Other borrowed funds	3,729	155,903	-	5,018	164,650
Other financial liabilities	134	744	3	238	1,119
Subordinated debt	-	67,642	-	-	67,642
Total liabilities	**70,476**	**442,648**	**290**	**104,883**	**618,297**
Open forward position (liabilities)	**-**	**17,799**	**-**	**26,000**	
Net position	**(3,199)**	**3,552**	**33**	**49,695**	
Guarantees and letters of credit	55	2,585	-	2,821	
Commitments to extend credit	1,142	9,208	-	411	

in '000 GEL **As at 31 December 2008**	**EUR**	**USD**	**Other currencies**	**Local currency**	**Total**
Assets					
Cash and cash equivalents	9,046	42,655	272	26,583	78,556
Due from other banks	40,185	12,303	293	131	52,912
Loans and advances to customers	17,371	373,692	-	110,219	501,282
Other financial assets	-	-	-	373	373
Total assets	**66,602**	**428,650**	**565**	**137,306**	**633,123**
Liabilities					
Due to other banks	-	-	-	22,145	22,145
Customers accounts	56,344	164,707	188	72,357	293,596
Other borrowed funds	10,957	213,552	2	5,013	229,524
Other financial liabilities	-	351	-	86	437
Subordinated debt	-	41,254	-	-	41,254
Total liabilities	**67,301**	**419,864**	**190**	**99,601**	**586,956**
Net position	**(699)**	**8,786**	**375**	**37,705**	
Guarantees and letters of credit	638	3,098	-	2,806	
Commitments to extend credit	599	11,070	-	740	

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

For the assessment of the foreign exchange risk, a Value at Risk (VaR) analysis is performed on a quarterly basis. The holding period was determined to be one year and the look-back period was three years.

in '000 GEL **As at 31 December 2009**	**95% confidence**	**99% confidence**
Maximum loss (VaR)	(27)	(520)
Average loss in case confidence interval is exceeded	(131)	(377)

Interest Rate Risk

The Bank's Interest Rate Risk Management Policy sets limits on positions in each material operating currency. To monitor interest rate changes, the Bank uses an interest rate gap analysis and captures the economic impact of different scenarios regarding yield curve shifts for all material operating currencies.

The table below presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

in '000 GEL **As at 31 December 2009**	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Assets								
Cash and cash equivalents	9,980	-	-	-	-	-	97,959	**107,939**
Due from other banks	35,916	-	-	-	-	-	1,190	**37,106**
Loans and advances to customers	25,704	44,667	158,350	116,203	125,889	43,978	2,537	**517,328**
Investment securities available-for-sale	-	-	3,922	-	-	-	435	**4,357**
Other financial assets	-	-	-	-	-	-	2,601	**2,601**
Total assets	**71,600**	**44,667**	**162,272**	**116,203**	**125,889**	**43,978**	**104,722**	**669,331**
Liabilities								
Due to other banks	-	-	-	-	-	-	493	**493**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	905	**905**
Customers accounts	104,557	66,453	104,861	10,077	1,002	2,438	95,005	**384,393**
Other borrowed funds	48,946	21,073	49,181	40,150	1,157	2,410	1,733	**164,650**
Other financial liabilities	-	-	-	-	-	-	1,119	**1,119**
Subordinated debt	25,287	-	-	3,443	6,743	31,187	982	**67,642**
Total liabilities	**178,790**	**87,526**	**154,042**	**53,670**	**8,902**	**36,035**	**100,237**	**619,202**
Net interest sensitivity gap	**(107,190)**	**(42,859)**	**8,230**	**62,533**	**116,987**	**7,943**		

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

in '000 GEL As at 31 December 2008	Up to 1 month	1 - 3 months	3 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Non-interest bearing	Total
Assets								
Cash and cash equivalents	-	-	-	-	-	-	78,556	**78,556**
Due from other banks	43,308	-	2,631	-	-	-	6,973	**52,912**
Loans and advances to customers	26,621	45,385	154,597	118,753	114,101	39,841	1,984	**501,282**
Investment securities available-for-sale	-	-	-	-	-	-	435	**435**
Other financial assets	-	-	-	-	-	-	373	**373**
Total assets	**69,929**	**45,385**	**157,228**	**118,753**	**114,101**	**39,841**	**88,321**	**633,558**
Liabilities								
Due to other banks	5	14,300	2,336	-	-	-	5,504	**22,145**
Customers accounts	63,154	87,956	78,660	18,907	759	1,701	42,459	**293,596**
Other borrowed funds	48,254	1,831	13,783	67,507	94,751	3,398	-	**229,524**
Other financial liabilities	-	-	-	-	-	-	437	**437**
Subordinated debt	72	326	385	-	3,130	37,341	-	**41,254**
Total liabilities	**111,485**	**104,413**	**95,164**	**86,414**	**98,640**	**42,440**	**48,400**	**586,956**
Net interest sensitivity gap	**(41,556)**	**(59,028)**	**62,064**	**32,339**	**15,461**	**(2,599)**		

The Bank's interest rate risk position is monitored by the General Risk Management Committee. The interest rate margins serve as a reasonable buffer capable of absorbing interest rate shocks to some degree. The loan portfolio risks associated with interest rate fluctuations are limited through interest rate adjustment clauses in many of the agreements governing long-term loans.

In quantitative terms, the risks associated with interest rate fluctuations are currently limited by stipulating that the interest rate risk exposure (economic value impact in present value) of the Bank following an interest rate shock of +/- 200 bps on EUR/USD and +/-1000 bps for local currencies, may not exceed 10% of the Bank's regulatory capital per currency.

As of the report date, the Bank was in compliance with these limits. The described scenario analysis (cumulative interest earnings impact for three months) shows the following figures as of 31 December 2009:

	Impact on profit and loss (equals impact on equity)	
	Probable adverse case scenario +/-2% or +/-5%	Stress scenario +/-3% or +/-7.5%
USD	(274)	(411)
EUR	38	57
GEL	(21)	(32)
	(257)	(386)

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

At 31 December 2009

in % p.a.	EUR	USD	Local currency
Financial assets			
Due from other banks	0.19	0.12	1.98
Loans and advances to customers	16.81	19.19	29.88
Debt investment securities available for sale	-	-	3.71
Financial liabilities			
Due to other banks	-	-	-
Customer accounts	6.99	7.53	7.83
Other borrowed funds	2.50	7.39	2.00
Subordinated debt	-	7.70	-

At 31 December 2008

in % p.a.	EUR	USD	Local currency
Financial assets			
Due from other banks	4.78	3.81	-
Loans and advances to customers	12.84	18.35	27.72
Financial liabilities			
Due to other banks	-	8.08	13.78
Customer accounts	6.85	7.55	8.48
Other borrowed funds	2.50	7.13	2.00
Subordinated debt	-	10.44	-

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table gives an overview of the carrying amounts and fair values of the financial assets and liabilities according to the classes of financial instruments, defined in accordance with the business of the Bank.

in '000 GEL	2009		2008	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash	107,939	107,939	78,556	78,556
Due from other banks	37,106	37,106	52,912	52,915
Loans and advances to customers				
Business	453,866	439,547	442,393	442,393
Agricultural	17,551	16,872	13,732	13,732
Housing	26,473	25,393	27,080	27,080
Consumer	7,359	8,235	6,682	6,682
Other	12,078	11,988	11,395	11,395
Other financial assets	2,601	2,601	373	373
Total	**664,973**	**649,681**	**633,123**	**633,126**
Financial liabilities				
Due to other banks	493	493	22,145	22,145
Customer accounts				
Current accounts	87,213	87,213	56,434	56,434
Savings accounts	105,239	105,239	83,292	83,292
Term accounts	190,903	187,797	153,870	153,870
Other liabilities to customers	1,038	1,038	-	-
Other borrowed funds	164,650	166,325	229,524	229,980
Other financial liabilities	1,119	1,119	437	437
Subordinated debt	67,642	69,310	41,254	41,420
Total	**618,297**	**618,534**	**586,956**	**357,598**

The estimated fair value of the loans and advances to customers corresponds to the discounted amount of the estimated expected future cash flows. The expected cash flows are discounted to fair value at the current market interest rates of the respective markets.

For classes of financial instruments, where fair values could not be determined via reference to a market quotation, the Bank applied Level 2 valuation techniques with discount rates which are observable current market rates as following:

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

in % p.a.	**2009**	**2008**
Due from other banks		
Short-term placements with other banks with original maturities of more than three months	1 to 2	3 to 4
Loans and advances to customers		
-Business	15 to 36	16 to 36
-Agricultural	15 to 35	15 to 36
-Housing	18 to 30	19 to 32
-Consumer	20 to 34	21 to 35
Due to other banks	-	9 to 12
Customer accounts		
- current and settlement accounts	2 to 5	2 to 5
- term deposits	7 to 15	7 to 16
Other borrowed funds	2 to 8	2 to 9
Subordinated debt	3 to 8	2 to 10

The following table shows the distribution of fair values over the different fair value hierarchies for the fair value measurement of financial instruments which are carried at fair value.

in '000 GEL		**of which**		
Financial assets	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Investment securities available-for-sale	3,922	-	3,922	-
Total	**3,922**	-	**3,922**	-

The fair value of claims and term deposits at variable rates of interest is identical to their carrying amounts. The fair value of claims and liabilities at fixed rates of interest was determined using the discounted cash flow method, using money market interest rates for financial instruments with similar default risks and similar remaining terms to maturity.

30. RECONCILIATION OF CLASSES OF FINANCIAL INSTRUMENTS WITH MEASUREMENT CATEGORIES

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables and (b) available for sale financial assets.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2009:

in '000 GEL	Loans and Receivables	Available for sale assets	Total
Financial assets			
Cash and cash equivalents	-	-	107,939
Due from other banks	37,106	-	37,106
Investment securities available-for-sale	-	4,357	4,357
Loans and advances to customers			
Business	453,866		453,866
Agricultural	17,551		17,551
Housing	26,473		26,473
Consumer	7,359		7,359
Other	12,078		12,078
Other financial assets	2,601		2,601
Total financial assets	**557,035**	**4,357**	**669,331**
Non-financial Assets	**-**	**-**	**52,882**
Total assets	**-**	**-**	**722,213**

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2008:

in '000 GEL	Loans and Receivables	Available for sale assets	Total
Financial assets			
Cash and Cash equivalents	-	-	78,556
Due from other banks	52,912	-	52,912
Investment securities available-for-sale	-	435	435
Loans and advances to customers			
Business	442,393		442,393
Agricultural	13,732		13,732
Housing	27,080		27,080
Consumer	6,682		6,682
Other	11,395		11,395
Other financial assets	373	-	373
Total financial assets	**554,567**	**435**	**633,558**
Non-financial Assets	**-**	**-**	**46,644**
Total assets	**-**	**-**	**680,202**

All of the Bank’s financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

31. CONTINGENT LIABILITIES AND COMMITMENTS

in '000 GEL	2009	2008
Guarantees and stand-by letters of credit	5,461	6,542
Commitments to extend credit:		
- Original term to maturity of one year or less	10,733	12,359
- Original term to maturity of more than one year	28	50
Total	**16,222**	**18,951**

The above table discloses the nominal principal amounts of contingent liabilities, commitments and guarantees, i.e. the amounts at risk, should contracts be fully drawn upon and clients default. The management believes that a significant portion of guarantees and commitments will expire being drawn upon; therefore the total of the contractual amounts is not representative of future liquidity requirements.
Fair value of credit related commitments was GEL 10,870 thousand at 31 December 2009 (2008: GEL 12,540 thousand).

Capital expenditure commitments
At 31 December 2009, the Bank has contractual capital expenditure commitments for GEL 167 thousand (2008: nil). The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar commitments.

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

in '000 GEL	2009	2008
- No later than one year	36	78
- Later than one year and no later than five years	195	85
- Later than five years	161	169
Total	**392**	**332**

Tax legislation
Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Bank management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and state authorities. Recent events within Georgia suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar periods preceding the period of review. Under certain circumstances reviews may cover longer periods. Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2009 no provision for potential tax liabilities has been recorded.

Compliance with covenants
The Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. The Bank was in compliance with covenants as at 31 December 2009 and 2008.

32. RELATED PARTY TRANSACTIONS

The ultimate parent company of the Bank is ProCredit Holding AG (“Parent”). The Bank’s related parties include the parent, fellow subsidiaries, key management personnel, close family members of key management personnel and entities which are controlled or significantly influenced by key management personnel or their close family members. Other related parties include shareholders of the Parent and entities controlled by the Parent.

Transactions with key management personnel, their close family members and entities qualify as related parties under the terms of IAS 24.

The Bank had the following transactions outstanding as at 31 December 2009 with related parties:

in '000 GEL	**2009**	**2008**
Assets		
Due from other banks		
-Parent	-	28,378
-other related parties	374	83
Loans and advances to customers		
-other related parties	-	5,032
Allowance for impairment losses on loans and advances		
-other related parties	-	(75)
Other Assets		
-Parent	7	-
-other related parties	-	188
Liabilities		
Due to other banks		
-other related parties	9	-
Customer accounts		
-key management	186	463
Other borrowed funds		
-Parent	42,755	93,829
Subordinated debt		
-Parent	21,793	21,549

All transactions with the related parties are performed substantially on the same terms as for transactions of a similar nature with third party counterparts.

32. RELATED PARTY TRANSACTIONS (CONTINUED)

Included in the profit and loss for the year ended 31 December 2009 are the following amounts which arose due to transactions with related parties.

in '000 GEL	2009	2008
Revenue		
Interest Income		
-Parent	120	930
-other related parties	300	280
Other Income		
-other related parties	-	1,693
Expense		
Interest Expense		
-Parent	6,024	3,977
-other related parties	-	2
-key management	4	4
Provision for impairment losses on loans and advances		
-other related parties	-	75
Other Expense		
-Parent	1,047	965
-other related parties	818	278
-key management	139	108
Management services fee paid to Parent	656	868

The transactions leading to the above balances were made in the ordinary course of business and on substantially the same terms as for comparable transactions with entities or persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of payment defaults nor did they comprise other unfavourable features.

33. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 1 February 2010, the Bank borrowed GEL 11,958 thousand from “SNS Institutional Microfinance Fund” with maturity on 25 January 2013. Such borrowing provides long-term funding in local currency.

Commencing on 1 March 2010, the interest rates on the Bank’s business loans were lowered by 2% on average. Interest rates offered on customer accounts had also decreased by 1 to 1.5% on average.