CLOSED JOINT STOCK COMPANY PROGRESS BANK

Financial Statements
For the Year Ended December 31, 2009

CLOSED JOINT STOCK COMPANY PROGRESS BANK

TABLE OF CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

Management is responsible for the preparation of the financial statements that present fairly the financial position of Closed Joint Stock Company Progress Bank (the "Bank") as at December 31, 2009, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting principles;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

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

The financial statements for the year ended December 31, 2009 were authorized for issue on March 5, 2010 by the Management Board.

On behalf of the Management Board:

Konstantine Sulamanidze General Director	Zviad Imedidze Chief Accountant
March 5, 2010 *Tbilisi, Georgia*	*March 5, 2010* *Tbilisi, Georgia*

CLOSED JOINT STOCK COMPANY PROGRESS BANK

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2009	Period from November 30, 2007 (inception date) till December 31, 2008
Interest income	5, 22	1,713	1,236
Interest expense	5, 22	(109)	(39)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		1,604	1,197
Provision for impairment losses on interest bearing assets	6, 22	(75)	(76)
NET INTEREST INCOME		1,529	1,121
Net gain on foreign exchange operations	7	55	403
Fee and commission income	8	26	8
Fee and commission expense	8	(9)	(3)
Other income		27	5
NET NON-INTEREST INCOME		99	413
OPERATING INCOME		1,628	1,534
OPERATING EXPENSES	9, 22	(2,071)	(2,174)
LOSS BEFORE INCOME TAX		(443)	(640)
Income tax benefit	10	36	95
TOTAL COMPREHENSIVE INCOME		(407)	(545)

On behalf of the Management Board:

Konstantine Sulamanidze
General Director

March 5, 2010
Tbilisi, Georgia

Zviad Imedidze
Chief Accountant

March 5, 2010
Tbilisi, Georgia

The notes on pages 9-44 form an integral part of these financial statements.

CLOSED JOINT STOCK COMPANY PROGRESS BANK

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of Georgian Lari)

	Notes	December 31, 2009	December 31, 2008
ASSETS:			
Cash and balances with the National Bank of Georgia	11	1,263	599
Due from banks	12, 22	2,415	5,867
Loans to customers	13, 22	5,962	2,844
Property, plant and equipment	14	3,143	3,443
Deferred income tax assets	10	131	95
Intangible assets	15	198	196
Other assets	16	13	193
TOTAL ASSETS		13,125	13,237
LIABILITIES AND EQUITY:			
LIABILITIES:			
Customer accounts	17, 22	490	274
Other liabilities	18	45	72
Subordinated debt	19, 22	1,542	1,436
Total liabilities		2,077	1,782
EQUITY:			
Share capital	20	12,000	12,000
Accumulated deficit		(952)	(545)
Total equity		11,048	11,455
TOTAL LIABILITIES AND EQUITY		13,125	13,237

On behalf of the Management Board:

Konstantine Sulamanidze
General Director

March 5, 2010
Tbilisi, Georgia

Zviad Imedidze
Chief Accountant

March 5, 2010
Tbilisi, Georgia

The notes on pages 9-44 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of Georgian Lari)

	Note	Share capital	Accumulated deficit	Total equity
November 30, 2007 (inception date)		-	-	-
Total comprehensive income for the period from inception till December 31, 2008		-	(545)	(545)
Issuance of ordinary shares		12,000	-	12,000
December 31, 2008		**12,000**	**(545)**	**11,455**
Total comprehensive income for the year		-	(407)	(407)
December 31, 2009		**12,000**	**(952)**	**11,048**

On behalf of the Management Board:

Konstantine Sulamanidze
General Director

March 5, 2010
Tbilisi, Georgia

Zviad Imedidze
Chief Accountant

March 5, 2010
Tbilisi, Georgia

The notes on pages 9-44 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2009	Period from November 30, 2007 (inception date) till December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		1,698	1,207
Interest paid		(2)	(3)
Fee and commission received		26	8
Fee and commission paid		(9)	(3)
Gain on foreign exchange operations		55	403
Other income received		27	5
Operating expenses paid		(1,642)	(2,041)
Cash outflow used in operating activities before changes in operating assets and liabilities		153	(424)
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of Georgia		(3)	(4)
Due from banks		3,443	(5,856)
Loans to customers		(3,169)	(2,902)
Other assets		62	(73)
Increase/(decrease) in operating liabilities:			
Customer accounts		215	274
Other liabilities		(12)	38
Net cash inflow/(outflow) from operating activities		689	(8,947)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1)	(3,658)
Purchase of intangible assets		(27)	(200)
Net cash outflow used in investing activities		(28)	(3,858)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009 (CONTINUED)
(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2009	Period from November 30, 2007 (inception date) till December 31, 2008
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of share capital		-	12,000
Payment of subordinated debt		-	(155)
Proceeds from subordinated debt		-	1,555
Net cash inflow from financing activities		-	13,400
NET INCREASE IN CASH AND CASH EQUIVALENTS		661	595
CASH AND CASH EQUIVALENTS, beginning of the period	11	595	-
CASH AND CASH EQUIVALENTS, end of the period	11	1,256	595

On behalf of the Management Board:

Konstantine Sulamanidze
General Director

March 5, 2010
Tbilisi, Georgia

Zviad Imedidze
Chief Accountant

March 5, 2010
Tbilisi, Georgia

The notes on pages 9-44 form an integral part of these financial statements.

1. ORGANIZATION

JSC Progress Bank (the "Bank") is a closed joint stock bank, which was established on November 30, 2007 (inception date). The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under general banking license number 0110244 issued by the NBG on December 31, 2007. The Bank's primary business consists of commercial activities, trading with foreign currencies, originating loans and guarantees, and attracting customer accounts.

The registered office of the Bank is located at 8 Baratashvili Steet, Tbilisi, Georgia.

As at December 31, 2009 the Bank had one branch operating in Tbilisi, Georgia (as of December 31, 2008 - no branches).

The Bank is wholly owned by JSC Kala Capital, which is also the ultimate parent of the Bank. The ultimate parent is controlled by an individual, Kakha Kaladze.

These financial statements were authorized for issue on March 5, 2010 by the Management Board of the Bank.

2. BASIS OF PRESENTATION

Accounting basis

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

Going concern assumption

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue its operations for the foreseeable future. The Bank was established in November 2007 and is in the process of developing client service operations. Thus during the period from November 30, 2007 till December 31, 2008 the Bank has been investing its financial resources received in the form of share capital, in loans and advances to banks, and during the year ended December 31, 2009 the Bank commenced customer lending activities. The management and shareholders have the intention to further develop the business of the Bank in Georgia both in small and medium business segments. The management also believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy ratio. As disclosed in Note 24 capital adequacy ratio (total capital ratio) is 103.45% and 95.37% as at December 31, 2009 and 2008, respectively.

These financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention.

Functional currency

Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Bank (the "functional currency"). The functional currency of the financial statements is Georgian Lari (GEL).

3. SIGNIFICANT ACCOUNTING POLICIES

Reporting period

As disclosed in Note 1 Closed Joint Stock Company Progress Bank was established on November 30, 2007, received general banking license on December 31, 2007 and started operations in 2008, and the comparative financial statements have been prepared covering the period from November 30, 2007 ("inception") till December 31, 2008 as these financial statements do not differ materially from those that would have been presented for the year ended December 31, 2008. Subsequently, the calendar year is used as a reporting period.

Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

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

Derecognition of financial assets and liabilities

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

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

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

Financial liabilities
A financial liability is derecognized when the obligation is discharged, cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Cash and cash equivalents

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

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

Due from banks

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

Loans to customers

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

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

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the income statement in the period of recovery.

Allowance for impairment losses

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

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

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

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

It should be noted that the evaluation of losses includes a subjective factor. The management of the Bank believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is probable that in certain periods the Bank can incur losses greater than recorded impairment.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any.

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

Buildings and other real estate	2%
Furniture and fixtures	8%-20%
Computers and office equipment	8%-20%
Vehicles	20%
Leasehold improvements	15%

Intangible assets	10%

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

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

Taxation

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on property, plant and equipment and loans to customers except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with provisions and other assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the statement of financial position if:

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

Customer accounts and subordinated debt

Customer accounts and subordinated debt are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings, using the effective interest method.

Provisions

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

Financial guarantee contracts issued

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

Contingencies

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

Share capital

Contributions to share capital are recognized at cost.

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

Retirement and other benefit obligations

The Bank does not have any pension arrangements separate from the state pension system of Georgia. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

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

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

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

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

Foreign currency translation

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

Rates of exchange

The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

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

Offset of financial assets and liabilities

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

Areas of significant management judgment and sources of estimation uncertainty

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

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

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

As at December 31, 2009 and 2008 the gross loans to customers totaled GEL 6,113 thousand and GEL 2,919 thousand, respectively, and allowance for impairment losses amounted to GEL 151 thousand and GEL 75 thousand, respectively.

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

Deferred tax assets
The management of the Bank is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to GEL 131 thousand and GEL 95 thousand as at December 31, 2009 and 2008, respectively.

Adoption of new and revised standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on December 31, 2009. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years.

Amendment to IAS 1 "Presentation of Financial Statements" – On September 6, 2007, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented. It also changes the titles of primary financial statements as they will be referred to in IFRS but does not require that these be renamed in an entity's financial statements. The amendment to IAS 1 is effective for periods beginning on or after January 1, 2009.

Standards and interpretations in issue and not yet adopted

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

IFRS 3 "Business Combinations" – The IASB published IFRS 3 and related revisions to IAS 27 "Consolidated and Separate Financial Statements" following the completion in January 2008, of its project on the acquisition and disposal of subsidiaries. They are effective for accounting periods beginning on or after July 1, 2009 but may be adopted together for accounting periods beginning on or after January 1, 2007.

In May 2008, the IASB issued amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements" that change the investor's accounting for the cost of an investment in a subsidiary, jointly controlled entity or associate. They are effective for accounting periods beginning on or after July 1, 2009.

IFRS 2 "Share-based Payment" – In June 2009 the IASB issued amendments to IFRS 2 "Share-based Payment". The amendments clarify the scope of IFRS 2 and provide additional guidance on the accounting for share-based payment transactions among group entities. They are effective for accounting periods beginning on or after January 1, 2010.

IAS 17 “Lease” – Amendments to IAS 17 “Lease” were issued in 2009. The amendments delete specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. They are effective for accounting periods beginning on or after January 1, 2010.

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

IFRIC 18 “Transfers of Assets from Customers” was issued to address divergent practice in the accounting by recipients for transfers of property, plant and equipment from customers. The Interpretation concludes that when an item of property, plant and equipments transferred meets a definition of an asset from the perspective of a recipient, the recipient should recognize the asset at its fair value on the date of transfer with the credit recognized as revenue. The Interpretation is to be applied prospectively to transfers of assets from customers received on or after July 1, 2009.

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

Financial instruments: Classification and Measurement (Exposure draft)- In July 2009 IASB issued an exposure draft (ED) that is a part of IASB’s project to replace IAS 39: Recognition and Measurement. The ED proposes a new classification and measurement model for financial assets and financial liabilities. All recognised financial assets and financial liabilities that are currently in the scope of IAS 39 will be measured either at amortised cost or fair value. A financial instrument that has only basic loan features and is managed on a contractual yield basis is measured at amortised cost, unless designated as at fair value through profit or loss (FVTPL). Those financial instruments measured at fair value will either be classified as FVTPL or in the case of investment in equity instruments that are not held for trading, designated irrevocably as at fair value through other comprehensive income (FVTOCI). All investments in equity instruments and derivatives linked to equity instruments in the scope of IAS 39 must be measured at fair value, i.e. an unquoted equity investment cannot be measured at cost less impairment when fair value cannot be reliably measured as currently required by IAS 39. The ED does not permit reclassifications out of or into amortised cost, FVTPL or FVTOCI after initial recognition. The effective date of these changes is not yet determined but the IASB expects to finalize the new classification and management model in time to allow entities to voluntary adopt the new model for 2009 year-end financial statements.

(in thousands of Georgian Lari, unless otherwise indicated)

4. RECLASSIFICATIONS

Reclassifications

Certain reclassifications have been made to the financial statements as at December 31, 2008 to conform to the presentation as at December 31, 2009 and for the year then ended as current year presentation provides a clearer view of the financial position of the Bank.

Nature of reclassification	Amount	Statement of financial position/ comprehensive income line as per the previous report	Statement of financial position/ comprehensive income line as per current report
To reclassify due from banks with original maturity within 90 days	5,867	Cash and balances with the NBG	Due from banks
To reclassify obligatory reserve with the NBG to cash and balances with the NBG	4	Other assets	Cash and balances with the NBG
To reclassify professional service fee expense to operating expenses	32	Fee and commission expense	Operating expenses

5. NET INTEREST INCOME

	Year ended December 31, 2009	Period from November 30, 2007 (inception date) till December 31, 2008
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	1,099	-
- interest income on individually impaired financial assets	212	-
- interest income on collectively impaired financial assets	402	1,236
Total interest income	**1,713**	**1,236**
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	1,462	29
Interest on due from banks	251	629
Interest on investments held-to-maturity	-	578
Total interest income	**1,713**	**1,236**
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on subordinated debt	(106)	(39)
Interest on customer accounts	(3)	-
Total interest expense	**(109)**	**(39)**

(in thousands of Georgian Lari, unless otherwise indicated)

Net interest income before provision for impairment losses on interest bearing financial assets	**1,604**	**1,197**

6. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses on loans to customers were as follows:

	Loans to customers
November 30, 2007 (inception date)	**-**
Provisions	76
December 31, 2008	**76**
Provisions	75
December 31, 2009	**151**

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2009	**Period from November 30, 2007 (inception date) till December 31, 2008**
Dealing, net	136	(10)
Translation differences, net	(81)	413
Total net gain on foreign exchange operations	**55**	**403**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2009	**Period from November 30, 2007 (inception date) till December 31, 2008**
Fee and commission income:		
Settlements	13	2
Cash operations	6	1
Documentary Operations	3	-
Foreign exchange operations	2	-
Other	2	5
Total fee and commission income	**26**	**8**
Fee and commission expense:		

Cash operations	(4)	(1)
Correspondent bank services	(4)	(1)
Other	(1)	(1)
Total fee and commission expense	**(9)**	**(3)**

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2009	Period from November 30, 2007 (inception date) till December 31, 2008
Staff costs	1,159	1,380
Depreciation and amortization	320	219
Professional services	81	142
Business trip expenses	75	20
Communication expenses	73	29
Insurance expenses	52	7
Taxes, other than income tax	42	73
Utilities	33	11
Advertising costs	22	74
Representative expenses	10	11
Postal expenses	7	9
Security expenses	7	2
Operating leases	5	64
Other expenses	185	133
Total operating expenses	**2,071**	**2,174**

10. INCOME TAXES

The Bank provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Georgia, which differs from IFRS.

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2009 and 2008 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The corporate tax rate used for the reconciliations is 15% payable by corporate entities in Georgia on taxable profits under tax law.

(in thousands of Georgian Lari, unless otherwise indicated)

Temporary differences as at December 31, 2009 and 2008 comprise:

	December 31, 2009	December 31, 2008
Deductible temporary differences:		
Provisions under guarantees and letters of credit	-	60
Other assets	32	-
Total deductible temporary differences	32	60
Taxable temporary differences:		
Property, plant and equipment	(275)	(293)
Loans to customers	(66)	-
Other assets	-	(20)
Total taxable temporary differences	(341)	(313)
Net deferred temporary differences	(309)	(253)
Net deferred tax liability at the statutory tax rate (15%)	(46)	(38)
Loss carry forward	177	133
Net deferred tax asset	**131**	**95**

Relationships between tax expenses and accounting profit for the year ended December 31, 2009 and the period from November 30, 2007 till December 31, 2008 are explained as follows:

	Year ended December 31, 2009	Period from November 30, 2007 (inception date) till December 31, 2008
Loss before income tax	(443)	(640)
Tax at the statutory tax rate (15 %)	(66)	(96)
Tax effect of permanent differences	30	1
Income tax benefit	**(36)**	**(95)**
Current income tax expense	-	-
Changes in deferred income tax balances	(36)	(95)
Income tax benefit	**(36)**	**(95)**

Deferred income tax assets	**2009**	**2008**
As at January 1 – deferred tax assets	95	-
Change in deferred income tax balances recognized in profit or loss	36	95

(in thousands of Georgian Lari, unless otherwise indicated)

As at December 31– deferred tax assets	**131**	**95**

11. CASH AND BALANCES WITH THE NATIONAL BANK OF GEORGIA (THE "NBG")

	December 31, 2009	December 31, 2008
Cash	1,074	527
Balances with the NBG	189	72
Total cash and balances with the NBG	**1,263**	**599**

The obligatory minimum reserve deposits with the NBG included in the balances with the NBG are restricted balances of GEL 7 thousand and GEL 4 thousand, respectively, as at December 31, 2009 and 2008.

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

	December 31, 2009	December 31, 2008
Cash and balances with the NBG	1,263	599
Less: minimum reserve deposits with the NBG	(7)	(4)
Total cash and cash equivalents	**1,256**	**595**

12. DUE FROM BANKS

Due from banks comprise:

	December 31, 2009	December 31, 2008
Loans and advances to banks	11	3,015
Correspondent accounts with other banks	2,404	2,852
Total due from banks	**2,415**	**5,867**

Included in due from banks is accrued interest in the amount of GEL 2 thousand and GEL 11 thousand as at December 31, 2009 and 2008, respectively.

As at December 31, 2009 and 2008 the Bank had due from one and two banks, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2009 and 2008 the maximum credit exposure of loans and advances to banks amounted to GEL 2,415 and GEL 5,867 thousand, respectively.

(in thousands of Georgian Lari, unless otherwise indicated)

13. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2009	December 31, 2008
Originated loans to customers	6,071	2,902
Accrued interest	42	18
	6,113	2,920
Less: allowance for impairment losses	(151)	(76)
Total loans to customers	**5,962**	**2,844**

Movements in the allowance for impairment losses for the year ended December 31, 2009 and the period from November 30, 2007 till December 31, 2008 are disclosed in Note 6.

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

	December 31, 2009	December 31, 2008
Loans collateralized by pledge of real estate	4,385	910
Loans collateralized by combined collateral	1,385	1,653
Loans collateralized by vehicles	50	-
Loans collateralized by cash	49	35
Loans collateralized by guarantees of enterprises	48	-
Loans collateralized by pledge of shares of other companies	-	246
Unsecured loans	45	-
Total loans to customers	**5,962**	**2,844**

	December 31, 2009	December 31, 2008
Analysis by sector:		
Trade	3,348	1,398
Individuals	1,369	15
Finance sector	1,131	831
Construction	65	600
Agriculture	49	-
Total loans to customers	**5,962**	**2,844**

(in thousands of Georgian Lari, unless otherwise indicated)

Loans to individuals comprise the following products:

	December 31, 2009	December 31, 2008
Consumer loans	886	16
Mortgage loans	500	-
Car loans	47	-
	1,433	16
Less: allowance for impairment losses	(64)	(1)
Total loans to individuals	**1,369**	**15**

As at December 31, 2009 the Bank granted loans to two customers, totaling GEL 1,852 thousand which individually exceeded 5% of the Bank's equity.

As at December 31, 2009 and 2008 a significant amount of loans (100% of total portfolio) is granted to companies operating in Georgia, which represents a significant geographical concentration in one region.

As at December 31, 2009 and 2008 loans to customers included loans totaling GEL 242 thousand and nil, respectively, with terms renegotiated. Otherwise these loans would be past due or impaired.

The table below summarizes an analysis of loans to customers by impairment:

	December 31, 2009			December 31, 2008		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	759	(87)	672	-	-	-
Loans to customers collectively determined to be impaired	1,433	(64)	1,369	2,920	(76)	2,844
Unimpaired loans	3,921	-	3,921	-	-	-
Total	**6,113**	**(151)**	**5,962**	**2,920**	**(76)**	**2,844**

(in thousands of Georgian Lari, unless otherwise indicated)

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings and other real estate	Furniture and equipment	Computers and office equipment	Vehicles	Other	Leasehold improvement	Total
At initial cost							
November 30, 2007 (inception date)	-	-	-	-	-	-	-
Additions	1,988	793	310	320	121	126	3,658
December 31, 2008	1,988	793	310	320	121	126	3,658
Additions	-	-	1	-	-	-	1
Disposals	-	-	-	-	-	(126)	(126)
December 31, 2009	1,988	793	311	320	121	-	3,533
Accumulated depreciation and impairment							
November 30, 2007 (inception date)	-	-	-	-	-	-	-
Charge for the period	4	34	9	36	14	118	215
December 31, 2008	4	34	9	36	14	118	215
Charge for the year	40	119	38	65	31	2	295
Eliminated on disposals	-	-	-	-	-	(120)	(120)
December 31, 2009	44	153	47	101	45	-	390
Net book value							
As at December 31, 2009	**1,944**	**640**	**264**	**219**	**76**	**-**	**3,143**
As at December 31, 2008	**1,984**	**759**	**301**	**284**	**107**	**8**	**3,443**

(in thousands of Georgian Lari, unless otherwise indicated)

15. INTANGIBLE ASSETS

	Intangible assets
At cost	
November 30, 2007 (inception date)	-
Additions	200
December 31, 2008	200
Additions	27
December 31, 2009	227
Accumulated amortization	
November 30, 2007 (inception date)	-
Charge for the period	4
December 31, 2008	4
Charge for the year	25
December 31, 2009	29
Net book value	
December 31, 2009	**198**
December 31, 2008	**196**

Intangible assets include software and licenses.

(in thousands of Georgian Lari, unless otherwise indicated)

16. OTHER ASSETS

Other assets comprise:

	December 31, 2009	December 31, 2008
Other financial assets recognized as loans and receivables in accordance with IAS 39:		
Prepayments and receivables on other transactions	11	73
Other non-financial assets:		
Tax settlements, other than income tax	2	120
Total other assets	**13**	**193**

17. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2009	December 31, 2008
Recorded at amortized cost:		
Time deposits	65	11
Repayable on demand	425	263
Total customer accounts	**490**	**274**

Included in customer accounts is accrued interest in the amount of GEL 1 thousand and nil thousand as at December 31, 2009 and 2008, respectively.

As at December 31, 2009 and 2008, customer accounts in the amount of GEL 3 thousand and nil were held as security against guarantees issued.

As at December 31, 2009 and 2008 customer accounts totaling GEL 418 thousand (85%) and GEL 271 thousand (99%), respectively, were due to ten customers, which represents significant concentration.

(in thousands of Georgian Lari, unless otherwise indicated)

	December 31, 2009	December 31, 2008
Analysis by sector:		
Trade	230	234
Construction	162	22
Individuals	87	17
Energy	3	-
Agriculture	3	-
Other	5	1
Total customer accounts	**490**	**274**

18. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2009	December 31, 2008
Other financial liabilities:		
Creditors	26	38
Other non-financial liabilities:		
Taxes payable, other than income tax	17	27
Other	2	7
Total other liabilities	**45**	**72**

19. SUBORDINATED DEBT

	Currency	Maturity date year	Interest rate %	December 31, 2009	December 31, 2008
Subordinated debt from related parties	GEL	17 July, 2016	7%	1,542	1,436
Total subordinated debt				**1,542**	**1,436**

Included in subordinated debt is accrued interest in the amount of GEL 142 thousand and GEL 36 thousand as at December 31, 2009 and 2008, respectively.

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank’s liabilities to all other creditors.

(in thousands of Georgian Lari, unless otherwise indicated)

20. SHARE CAPITAL

As of December 31, 2009 and 2008 authorized, issued and paid in share capital consisted of 12,000,000 ordinary shares with par value of GEL 1 each.

21. COMMITMENTS AND CONTINGENCIES

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

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

Provision for losses on contingent liabilities amounted nil as at December 31, 2009 and 2008.

As at December 31, 2009 and 2008 contingent liabilities comprise:

	December 31, 2009	December 31, 2008
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	87	501
Commitments on loans and unused credit lines	539	825
Total contingent liabilities and credit commitments	**626**	**1,326**

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2009 and 2008 such unused credit lines come to GEL 539 thousand and GEL 825 thousand, respectively.

Capital commitments – The Bank had no capital commitments as at December 31, 2009 and 2008.

Operating lease commitments – The Bank has no lease commitments as at December 31, 2009 and 2008.

Legal proceedings – During the year ended December 31, 2009 and the period from November 30, 2007 (inception date) no claims from the Bank's customers and counterparties were received against the Bank. Management is of the opinion that no unsecured losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation – Commercial legislation of the Georgia including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments and valuation of provision for impairment losses. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.

Operating environment – Although in recent years there has been a general improvement in economic conditions in Georgia, Georgia continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Georgia continue to change rapidly. Tax, currency and customs legislation within Georgia is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Georgia. The future economic direction of Georgia is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Ongoing global liquidity crisis – The financial markets, both globally and in Georgia, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

While many countries, including Georgia, have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from risks in global financial systems, including any tightening of the credit environment could slow or disrupt the economy of Georgia, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

While the government of Georgia has introduced a range of stabilization measures aimed at providing liquidity to Georgian commercial banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank and its counterparties, which could affect the Bank's financial position, results of operations and business prospects.

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

(in thousands of Georgian Lari, unless otherwise indicated)

22. TRANSACTIONS WITH RELATED PARTIES

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

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;

(b) Members of key management personnel of the Bank or its parent;

(c) Close members of the family of any individuals referred to in (a) or (b);

(d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c);

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Bank and other related parties are disclosed below:

	December 31, 2009		December 31, 2008	
	Related party balances	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Loans to customers	906	6,113	22	2,920
- ultimate shareholder	551		-	
- key management personnel of the Bank or its parent	321		22	
- other related parties	34		-	
Allowance for impairment losses on loans to customers	(18)	(151)	(1)	(76)
- ultimate shareholder	(11)		-	
- key management personnel of the Bank or its parent	(6)		(1)	
- other related parties	(1)		-	
Customer accounts	47	490	246	274
- ultimate shareholder	2		-	
- key management personnel of the Bank or its parent	1		11	
- other related parties	44		235	
Subordinated debt	1,542	1,542	1,436	1,436
- ultimate shareholder	1,542		1,436	
Guarantees issued and credit commitments	58	626	-	1,326
- key management personnel of the Bank or its parent	5		-	
- other related parties	53		-	

(in thousands of Georgian Lari, unless otherwise indicated)

The remuneration of directors and other members of key management were as follows:

	Year ended December 31, 2009		Period from November 30, 2007 till December 31, 2008	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	416	1,159	886	1,380

Included in the statement of comprehensive income for the year ended December 31, 2009 and for the period from November 30, 2007 till December 31, 2008 are the following amounts which were recognized in transactions with related parties:

	Year ended December 31, 2009		Period from November 30, 2007 till December 31, 2008	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income	46	1,678	1	1,236
- ultimate shareholder	26		-	
- key management personnel of the Bank or its parent	20		1	
Interest expense	(106)	(109)	(39)	(39)
- ultimate shareholder	(106)		(39)	
Provision for impairment losses on interest bearing assets	(17)	(75)	(1)	(76)
- ultimate shareholder	(11)		-	
- key management personnel of the Bank or its parent	(5)		(1)	
- other related parties	(1)		-	

(in thousands of Georgian Lari, unless otherwise indicated)

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of financial assets and liabilities that are not carried at fair value in the statement of financial position compared with the corresponding carrying value in the financial statements of the Bank is presented below:

	December 31, 2009		December 31, 2008	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the NBG	1,263	1,263	599	599
Due from banks	2,415	2,415	5,867	5,867
Loans to customers	5,962	5,962	2,844	2,844
Other financial assets	11	11	73	73
Customer accounts	490	490	274	274
Other financial liabilities	26	26	38	38
Subordinated debt	1,542	1,242	1,436	1,098

24. CAPITAL RISK MANAGEMENT

The Bank manages its capital to ensure that entities in the Bank will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the Georgian Financial Supervisory Agnecy (the "GFSA") in supervising the Bank.

The capital structure of the Bank consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Bank balances its overall capital structure through payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

(in thousands of Georgian Lari, unless otherwise indicated)

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basle Committee:

	December 31, 2009	**December 31, 2008**
Movement in tier 1 capital:		
At 1 January	11,455	12,000
Net loss	(407)	(545)
At December 31	**11,048**	**11,455**

	December 31, 2009	**December 31, 2008**
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	12,000	12,000
Accumulated deficit	(952)	(545)
Total qualifying tier 1 capital	11,048	11,455
Subordinated debt	1,542	1,436
Total regulatory capital	**12,590**	**12,891**
Capital Ratios:		
Tier 1 capital	91.27%	84.75%
Total capital	103.45%	95.37%

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

As at December 31, 2009 and 2008 the Bank included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

25. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit exposures
- Liquidity risk
- Market risk

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit risk

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

Risk management and monitoring is performed within set limits of authority. These processed are performed by the Credit Committees and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Credit Department. Daily risk management is performed by the Head of Credit Departments.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved by the Management Board.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees.

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

Maximum exposure of credit risk

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

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Bank's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

(in thousands of Georgian Lari, unless otherwise indicated)

As at December 31, 2009:

	Maximum exposure
Balances with the NBG	189
Due from banks	2,415
Loans to customers	5,962
Other financial assets	11
Guarantees issued and similar commitments	87
Commitments on loans and unused credit lines	539

As at December 31, 2008:

	Maximum exposure
Balances with the NBG	72
Due from banks	5,867
Loans to customers	2,844
Other financial assets	73
Guarantees issued and similar commitments	501
Commitments on loans and unused credit lines	825

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As of December, 31 2009 and 2008 the balances with the NBG amounted to GEL 189 thousand and GEL 72 thousand, respectively. The credit rating of Georgia according to the international rating agencies in 2009 corresponded to investment level B.

The following table details credit ratings of financial assets held by the Bank as at December 31, 2009:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2009
Due from banks	-	-	-	1,626	789	-	2,415
Loans to customers	-	-	-	-	-	5,962	5,962
Other financial assets	-	-	-	-	-	11	11

As at December 31, 2008:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2008
Due from banks	-	-	-	-	5,867	-	5,867
Loans to customers	-	-	-	-	-	2,844	2,844
Other financial assets	-	-	-	-	-	73	73

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

Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. The Bank's financial assets and financial liabilities are concentrated in Georgia.

Liquidity risk

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

The Bank utilizes various tools of liquidity risk management, including construction of expected future cash inflows and outflows over a serious of specified time bands. Another major tool for analyzing liquidity prepared by the Bank is Liquidity Gap analysis statement compiled for all operational currencies over a 5 years period.

ALMC also sets limits on the minimum proportion of the funds placed on interbank deposits available in order to be able to cover withdrawals at unexpected levels of demand.

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Bank will be liable to redeem the liability; and

(b) estimated term till maturity of financial assets, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Bank expects that cash flows will be received in the different time.

An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Bank.

(in thousands of Georgian Lari, unless otherwise indicated)

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2009 Total
FINANCIAL ASSETS						
Due from banks	2,192	-	-	-	-	2,192
Loans to customers	379	1,098	3,077	1,075	333	5,962
Total interest bearing financial assets	2,571	1,098	3,077	1,075	333	8,154
Cash and balances with the NBG	1,256	-	-	-	7	1,263
Due from banks	223	-	-	-	-	223
Other financial assets	11	-	-	-	-	11
Total financial assets	**4,061**	**1,098**	**3,077**	**1,075**	**340**	**9,651**
FINANCIAL LIABILITIES						
Customer accounts	3	5	57	-	-	65
Subordinated debt	-	-	-	-	1,542	1,542
Total interest bearing financial liabilities	3	5	57	-	1,542	1,607
Customer accounts	425	-	-	-	-	425
Other financial liabilities	-	26	-	-	-	26
Total financial liabilities	**428**	**31**	**57**	**-**	**1,542**	**2,058**
Liquidity gap	3,633	1,067	3,020	1,075	(1,202)	
Cumulative liquidity gap	3,633	4,700	7,720	8,795	7,593	
Interest sensitivity gap	2,568	1,093	3,020	1,075	(1,209)	
Cumulative interest sensitivity gap	**2,568**	**3,661**	**6,681**	**7,756**	**6,547**	
Cumulative interest sensitivity gap as a percentage of total assets	**20%**	**28%**	**51%**	**59%**	**50%**	

(in thousands of Georgian Lari, unless otherwise indicated)

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2008 Total
FINANCIAL ASSETS						
Due from banks	5,867	-	-	-	-	5,867
Loans to customers	-	-	2,844	-	-	2,844
Total interest bearing financial assets	5,867	-	2,844	-	-	8,711
Cash and balances with the NBG	599	-	-	-	-	599
Other financial assets	73	-	-	-	-	73
TOTAL FINANCIAL ASSETS	**6,539**	**-**	**2,844**	**-**	**-**	**9,383**
FINANCIAL LIABILITIES						
Customer accounts	11	-	-	-	-	11
Subordinated debt	-	-	-	-	1,436	1,436
Total interest bearing financial liabilities	11	-	-	-	1,436	1,447
Customer accounts	263	-	-	-	-	263
Other financial liabilities	-	38	-	-	-	38
TOTAL FINANCIAL LIABILITIES	**274**	**38**	**-**	**-**	**1,436**	**1,748**
Liquidity gap	6,265	(38)	2,844	-	(1,436)	
Cumulative liquidity gap	6,265	6,227	9,071	9,071	7,635	
Interest sensitivity gap	5,856	-	2,844	-	(1,436)	
Cumulative interest sensitivity gap	**5,856**	**5,856**	**8,700**	**8,700**	**7,264**	
Cumulative interest sensitivity gap as a percentage of total assets	**44%**	**44%**	**66%**	**66%**	**55%**	

(in thousands of Georgian Lari, unless otherwise indicated)

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

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2009 Total
FINANCIAL LIABILITIES							
Customer accounts	7.19%	3	5	60	-	-	68
Subordinated debt	7.00%	-	-	-	-	1,988	1,988
Total interest bearing financial liabilities		3	5	60	-	1,988	2,056
Customer accounts		425	-	-	-	-	425
Other financial liabilities		-	26	-	-	-	26
Total financial liabilities		**428**	**31**	**60**	**-**	**1,988**	**2,507**

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2008 Total
FINANCIAL LIABILITIES							
Customer accounts	4.00%	11	-	-	-	-	11
Subordinated debt	7.00%	-	-	-	-	1,988	1,988
Total interest bearing financial liabilities		11	-	-	-	1,988	1,999
Customer accounts		263	-	-	-	-	263
Other financial liabilities		-	38	-	-	-	38
Total financial liabilities		**274**	**38**	**-**	**-**	**1,988**	**2,300**

Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. There have been no changes as to the way the Bank measures risk or to the risk it is exposed.

(in thousands of Georgian Lari, unless otherwise indicated)

Interest rate sensitivity

Generally banks are exposed to interest rate risk as they borrow funds at both fixed and floating rates.

The majority of the Bank's loan contracts and financial liabilities that bear interest contain clauses with fixed rates and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The ALMC also manages interest rate and market risks by managing the Bank's interest rate position, which provides the Bank with a positive interest margin.

	December 31, 2009		December 31, 2008	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Financial assets:				
Due from banks	30	(30)	67	(67)
Loans to customers	54	(54)	3	(3)
Financial liabilities:				
Customer accounts	(3)	3	-	-
Subordinated debt	(14)	14	(7)	7
Net impact on profit before tax	**67**	**(67)**	**63**	**(63)**

Impact on equity:

	December 31, 2009		December 31, 2008	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Financial assets:				
Due from banks	26	(26)	57	(57)
Loans to customers	46	(46)	3	(3)
Financial liabilities:				
Customer accounts	(3)	3	-	-
Subordinated debt	(12)	12	(6)	6
Net impact on equity	**57**	**(57)**	**54**	**(54)**

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of GEL devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury

Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the GFSA.

(in thousands of Georgian Lari, unless otherwise indicated)

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	GEL	USD USD 1= GEL 1 .6858	EUR EUR 1 = GEL 2.4195	Other currency	December 31, 2009 Total
Financial assets					
Cash and balances with the NBG	949	180	134	-	1,263
Due from banks	787	217	1,405	6	2,415
Loans to customers	5,958	4	-	-	5,962
Other financial assets	7	4	-	-	11
Total financial assets	**7,701**	**405**	**1,539**	**6**	**9,651**
Financial liabilities					
Customer accounts	327	113	50	-	490
Other financial liabilities	-	26	-	-	26
Subordinated debt	1,542	-	-	-	1,542
Total financial liabilities	**1,869**	**139**	**50**	**-**	**2,058**
OPEN BALANCE SHEET POSITION	**5,832**	**266**	**1,489**	**6**	

	GEL	USD USD 1= GEL 1 .6670	EUR EUR 1 = GEL 2.3648	Other currency	December 31, 2008 Total
Financial assets					
Cash and balances with the NBG	281	161	157	-	599
Due from banks	4,775	1,001	83	8	5,867
Loans to customers	2,020	824	-	-	2,844
Other financial assets	73	-	-	-	73
Total financial assets	**7,149**	**1,986**	**240**	**8**	**9,383**
Financial liabilities					
Customer accounts	30	209	35	-	274
Subordinated debt	1,436	-	-	-	1,436
Other financial liabilities	-	38	-	-	38
Total financial liabilities	**1,466**	**247**	**35**	**-**	**1,748**
OPEN BALANCE SHEET POSITION	**5,683**	**1,739**	**205**	**8**	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 10% increase and decrease in the USD against the GEL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Bank where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

(in thousands of Georgian Lari, unless otherwise indicated)

Impact on net profit and equity based on asset values as at December 31, 2009 and 2008:

	December 31, 2009		**December 31, 2008**	
	GEL/USD +10%	**GEL/USD -10%**	**GEL/USD +10%**	**GEL/USD -10%**
Impact on profit or loss before tax	5	(5)	(40)	40
Impact on equity	4	(4)	(34)	34

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.