CLOSED JOINT STOCK COMPANY PROGRESS BANK

Financial Statements
For the Year Ended December 31, 2010

CLOSED JOINT STOCK COMPANY PROGRESS BANK

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010	1
INDEPENDENT AUDITORS' REPORT	2-3
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010:	
Statement of comprehensive income	4
Statement of financial position	5
Statement of changes in equity	6
Statement of cash flows	7-8
Notes to the financial statements	9-47

CLOSED JOINT STOCK COMPANY PROGRESS BANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010, 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
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- 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 that 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, 2010 were authorized for issue on March 17, 2011 by the Management Board.

On behalf of the Management Board:

Konstantine Sulamanidze
General Director

March 17, 2011
Tbilisi, Georgia

Zviad Imedidze
Chief Accountant

March 17, 2011
Tbilisi, Georgia

Deloitte.

Deloitte & Touche LLC
36 a Lado Asatiani Street
Tbilisi, 0105
Georgia

Tel: +995 32 24 45 66
Fax: +995 32 24 45 69
www.deloitte.ge

INDEPENDENT AUDITORS' REPORT

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

Report on the financial statements

We have audited the accompanying financial statements of Closed JSC Progress Bank ("Bank"), which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/ru/about for a detailed description of the legal structure of Deloitte CIS.

© 2011 Deloitte & Touche LLC. All rights reserved.

Deloitte.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Closed JSC Progress Bank ("Bank"), as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

As discussed in Note 3 to these financial statements, the accompanying comparative information as at December 31, 2009 and 2008 and for the years then ended were restated. Our opinion is not qualified in respect of this matter.

Deloitte & Touche

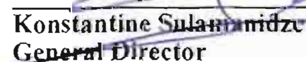
March 17, 2011
Tbilisi, Georgia

CLOSED JOINT STOCK COMPANY PROGRESS BANK

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Interest income	4, 21	2,434	1,713
Interest expense	4, 21	(123)	(109)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		2,311	1,604
Provision for impairment losses on interest bearing assets	5, 21	(3)	(75)
NET INTEREST INCOME		2,308	1,529
Net (loss)/gain on foreign exchange operations	6	(33)	55
Fee and commission income	7	68	26
Fee and commission expense	7	(15)	(9)
Other income		24	27
NET NON-INTEREST INCOME		44	99
OPERATING INCOME		2,352	1,628
OPERATING EXPENSES	8, 21	(1,931)	(2,071)
PROFIT/(LOSS) BEFORE INCOME TAX		421	(443)
Income tax benefit	9	(67)	36
TOTAL COMPREHENSIVE INCOME		354	(407)

On behalf of the Management Board:



Konstantine Sulamanidze
General Director

March 17, 2011
Tbilisi, Georgia

Zviad Imedidze
Chief Accountant

March 17, 2011
Tbilisi, Georgia

The notes on pages 9-47 form an integral part of these financial statements.

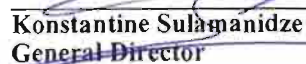
CLOSED JOINT STOCK COMPANY PROGRESS BANK

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2010

(in thousands of Georgian Lari)

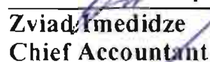
	Notes	December 31, 2010	December 31, 2009
ASSETS:			
Cash and balances with the National Bank of Georgia	10	641	1,263
Due from banks	11, 21	481	2,415
Loans to customers	12, 21	9,789	5,962
Property, plant and equipment	13	2,864	3,143
Deferred income tax assets	9	64	131
Intangible assets	14	240	198
Other assets	15	16	13
TOTAL ASSETS		14,095	13,125
LIABILITIES AND EQUITY:			
LIABILITIES:			
Customer accounts	16, 21	1,008	490
Other liabilities	17	44	45
Subordinated debt	18, 21	1,641	1,542
Total liabilities		2,693	2,077
EQUITY:			
Share capital	19	12,000	12,000
Accumulated deficit		(598)	(952)
Total equity		11,402	11,048
TOTAL LIABILITIES AND EQUITY		14,095	13,125

On behalf of the Management Board:



Konstantine Sulamanidze
General Director

March 17, 2011
Tbilisi, Georgia



Zviad Imedidze
Chief Accountant

March 17, 2011
Tbilisi, Georgia

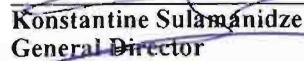
The notes on pages 9-47 form an integral part of these financial statements.

CLOSED JOINT STOCK COMPANY PROGRESS BANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Georgian Lari)

	Note	Share capital	Accumulated deficit	Total equity
December 31, 2008		12,000	(545)	11,455
Total comprehensive income for the year		-	(407)	(407)
December 31, 2009		12,000	(952)	11,048
Total comprehensive income for the year		-	354	354
December 31, 2010		12,000	(598)	11,402

On behalf of the Management Board:



Konstantine Sulamanidze
General Director

March 17, 2011
Tbilisi, Georgia

Zviad Imedidze
Chief Accountant

March 17, 2011
Tbilisi, Georgia

The notes on pages 9-47 form an integral part of these financial statements.

CLOSED JOINT STOCK COMPANY PROGRESS BANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of Georgian Lari)

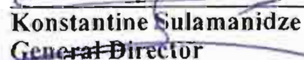
	Notes	Year ended December 31, 2010	Year ended December 31, 2009	Period from November 30, 2007 (inception date) till December 31, 2008
			(Restated)	*(Restated)*
CASH FLOWS FROM OPERATING ACTIVITIES:				
Interest received		2,352	1,689	1,218
Interest paid		(25)	(2)	(3)
Fee and commission received		67	26	8
Fee and commission paid		(15)	(9)	(3)
Gain on foreign exchange operations		(33)	55	403
Other income received		24	27	5
Operating expenses paid		(1,603)	(1,642)	(2,041)
Cash outflow used in operating activities before changes in operating assets and liabilities		767	144	(413)
Changes in operating assets and liabilities				
(Increase)/decrease in operating assets:				
Minimum reserve deposit with the National Bank of Georgia		(3)	(3)	(4)
Loans to customers		(3,749)	(3,169)	(2,902)
Other assets		(2)	62	(73)
Increase/(decrease) in operating liabilities:				
Customer accounts		518	215	274
Other liabilities		1	(12)	38
Net cash inflow/(outflow) from operating activities		(2,468)	(2,763)	(3,080)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment		(11)	(1)	(3,658)
Purchase of intangible assets		(80)	(27)	(200)
Net cash outflow used in investing activities		(91)	(28)	(3,858)

CLOSED JOINT STOCK COMPANY PROGRESS BANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010 (CONTINUED)
(in thousands of Georgian Lari)

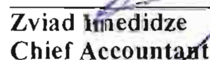
	Notes	Year ended December 31, 2010	Year ended December 31, 2009 (Restated)	Year ended December 31, 2008 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issue of share capital		-	-	12,000
Payment of subordinated debt		-	-	(155)
Proceeds from subordinated debt		-	-	1,555
Net cash inflow from financing activities		-	-	13,400
NET INCREASE IN CASH AND CASH EQUIVALENTS		(2,559)	(2,791)	6,462
CASH AND CASH EQUIVALENTS, beginning of the period	10	3,671	6,462	-
CASH AND CASH EQUIVALENTS, end of the period	10	1,112	3,671	6,462

On behalf of the Management Board:



Konstantine Sulamanidze
General Director

March 17, 2011
Tbilisi, Georgia



Zviad Imedidze
Chief Accountant

March 17, 2011
Tbilisi, Georgia

The notes on pages 9-47 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 Street, Tbilisi, Georgia.

As at December 31, 2010 and 2009 the Bank had one branch operating in Tbilisi, Georgia.

The Bank is wholly owned by JSC Kala Capital. The ultimate shareholder of the Bank is Kakha Kaladze.

These financial statements were authorized for issue on March 17, 2011 by the Management Board of the Bank.

2. SIGNIFICANT ACCOUNTING POLICIES

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").

Other basis of presentation criteria

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation 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, 2009 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, 2010 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 23 capital adequacy ratio (total capital ratio) is 75.65% and 103.45% as at December 31, 2010 and 2009, 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. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 24.

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. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies are set out below.

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 receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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 revenue – other

Recognition of fee and commission income

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.

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 financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For unlisted equity investment classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of its impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of comprehensive income is transferred from equity to the statement of comprehensive income.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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 statement of comprehensive income in the period of recovery.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than it is entirety (e.g. when the Bank retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Bank retains control), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Other financial liabilities

Other financial liabilities, including depository instruments with the National Bank of Georgia, deposits by banks and customers, debt securities issued, other borrowed funds, including subordinated debt, and other liabilities, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts and advances to banks with original maturities within 90 days, except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time and thus are considered liquid. For purposes of determining cash flows, the minimum reserve deposit required by the National Bank of Georgia is not included as a cash equivalent due to restrictions on its availability.

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 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 statement of comprehensive income according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Property, plant and equipment

Property, plant and equipment is 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%

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.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets are assessed for impairment whether there is an indication that the intangible assets may be impaired.

Intangible assets	10%

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of non-financial assets other than goodwill

On an ongoing basis, the Bank reviews the carrying amounts of its tangible and definitely-lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary 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. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax 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 taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with 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 such investments and interests 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 the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which The Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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.

Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

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.

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.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at the appropriate spot rates of exchange ruling at the statement of financial position 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.

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

	December 31, 2010	December 31, 2009
GEL/1 US Dollar	1.7728	1.6858
GEL/1 Euro	2.3500	2.4195

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in Note 2, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period when the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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 Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in The Bank 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, 2010 and 2009 the gross loans to customers totaled GEL 9,943 thousand and GEL 6,113 thousand, respectively, and allowance for impairment losses amounted to GEL 154 thousand and GEL 151 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 64 thousand and GEL 131 thousand as at December 31, 2010 and 2009, respectively.

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in the following section: New and revised IFRSs applied with no material effect on the financial statements.

New and revised IFRSs applied with no material effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the financial statements. Disclosures in these financial statements have been modified to reflect the above clarification, where applicable.
Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to IAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in IAS 38 Intangible Assets for capitalization as part of an internally generated intangible asset. This change has been applied retrospectively.
Amendments to IFRS 7 Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)	The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.
Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Bank has applied the amendments in advance of their effective date (annual periods beginning on or after January 1, 2011). The amendments have been applied retrospectively.

New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- **IFRS 9 (as amended in 2010), Financial Instruments**

  IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

  IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Bank's financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Banks' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- **Amendments to IFRS 7, Disclosures – Transfers of Financial Assets**

The amendments to IFRS 7 titled *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Bank's disclosures regarding transfers of trade receivables previously affected.

IFRS 7 is effective for annual periods beginning on or after July 1, 2011.

- **IAS 24 (revised in 2009), Related Party Disclosures**

IAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Bank because the Bank is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard. IAS 24 is Effective for annual periods beginning on or after January 1, 2011, with earlier application permitted.

3. RESTATEMENT

In 2010 the Bank's management discovered errors in the presentation of financial statements for the years ended 31 December 2009 and 2008. Unrestricted balances on correspondent and time deposit accounts and advances to banks with original maturities within 90 days were recorded as "Due from banks" in cash flow from operating activities. The reclassification was made in respect of Cash Flow Statement. Unrestricted balances on correspondent and time deposit accounts and advances to banks with original maturities within 90 days, which may be converted to cash within a short period of time and thus are considered liquid were reclassified from "Due from banks" to "Cash and Cash Equivalent" for the purposes of determining cash flows.

	As previously reported		**Reclassification amount**		**As reclassified**	
	December 31, 2008	**December 31, 2009**	**December 31, 2008**	**December 31, 2009**	**December 31, 2008**	**December 31, 2009**
Due from banks in cash flow from operating activities (Statement of Cash Flow)	5,856	(3,443)	(5,856)	3,443	-	-
Total cash and cash equivalents	595	1,256	5,867	2,415	6,462	3,671

4. NET INTEREST INCOME

	Year ended December 31, 2010	**Year ended December 31, 2009**
Interest income comprises		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	1,884	1,099
- interest income on individually impaired financial assets	299	212
- interest income on collectively impaired financial assets	251	402
Total interest income	**2,434**	**1,713**
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	2,412	1,462
Interest on due from banks	22	251
Total interest income	**2,434**	**1,713**
Interest expense comprises		
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on subordinated debt	(98)	(106)
Interest on customer accounts	(25)	(3)
Total interest expense	**(123)**	**(109)**
Net interest income before provision for impairment losses on interest bearing financial assets	**2,311**	**1,604**

5. ALLOWANCE FOR IMPAIRMENT LOSSES

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

	Loans to customers
December 31, 2008	**76**
Provisions	75
December 31, 2009	**151**
Provisions	3
December 31, 2010	**154**

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Dealing, net	109	136
Translation differences, net	(142)	(81)
Total net (loss)/gain on foreign exchange operations	**(33)**	**55**

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2010	Year ended December 31, 2009
Fee and commission income:		
Settlements	27	13
Cash operations	35	6
Documentary operations	4	3
Foreign exchange operations	-	2
Other	2	2
Total fee and commission income	**68**	**26**
Fee and commission expense:		
Cash operations	(4)	(4)
Correspondent bank services	(10)	(4)
Other	(1)	(1)
Total fee and commission expense	**(15)**	**(9)**

8. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2010	Year ended December 31, 2009
Staff costs	1,115	1,159
Depreciation and amortization	328	320
Communications	116	73
Professional services	106	81
Business trip expenses	66	75
Taxes, other than income tax	32	42
Utilities	31	33
Security expenses	26	7
Representative expenses	14	10
Advertising costs	8	22
Postal expenses	8	7
Insurance expenses	6	52
Operating leases	-	5
Other expenses	75	185
Total operating expenses	**1,931**	**2,071**

9. 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, 2010 and 2009 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.

Temporary differences as at December 31, 2010 and 2009 comprise:

	December 31, 2010	December 31, 2009
Deductible temporary differences:		
Provisions under guarantees and letters of credit	-	-
Other assets	32	32
Total deductible temporary differences	32	32
Taxable temporary differences:		
Property, plant and equipment	(268)	(275)
Loans to customers	(199)	(66)
Other assets	39	-
Total taxable temporary differences	(428)	(341)
Net deferred temporary differences	(396)	(309)
Net deferred tax liability at the statutory tax rate (15%)	(59)	(46)
Loss carry forward	123	177
Net deferred tax asset	**64**	**131**

Relationships between tax expenses and accounting profit for the year ended December 31, 2010 and December 31, 2009 are explained as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Profit/(Loss) before income tax	421	(443)
Tax at the statutory tax rate (15 %)	63	(66)
Tax effect of permanent differences	4	30
Income tax benefit	**67**	**(36)**
Current income tax expense	-	-
Changes in deferred income tax balances	67	(36)
Income tax benefit	**67**	**(36)**

Deferred income tax assets	**2010**	**2009**
As at January 1 – deferred tax assets	131	95
Change in deferred income tax balances recognized in profit or loss	(67)	36
As at December 31– deferred tax assets	**64**	**131**

10. CASH AND BALANCES WITH THE NATIONAL BANK OF GEORGIA

	December 31, 2010	December 31, 2009
Cash	423	1,074
Balances with the NBG	218	189
Total cash and balances with the NBG	**641**	**1,263**

The obligatory minimum reserve deposits with the NBG included in the balances with the NBG are restricted balances of GEL 10 thousand and GEL 7 thousand, respectively, as at December 31, 2010 and 2009.

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

	December 31, 2010	December 31, 2009	December 31, 2008
		(Restated)	*(Restated)*
Cash and balances with the NBG	641	1,263	599
Correspondent accounts	481	2,415	5,867
Less: minimum reserve deposits with the NBG	(10)	(7)	(4)
Total cash and cash equivalents	**1,112**	**3,671**	**6,462**

11. DUE FROM BANKS

Due from banks comprise:

	December 31, 2010	December 31, 2009
Loans and advances to banks	17	11
Correspondent accounts with other banks	464	2,404
Total due from banks	**481**	**2,415**

Included in due from banks is accrued interest in the amount of zero and GEL 2 thousand as at December 31, 2010 and 2009, respectively.

As at 31 December 2010 and 2009 the Bank had loans and advances to 2 and 1 banks, respectively which exceeded 10 % of the Bank's equity.

As at 31 December 2010 and 2009 the maximum credit risk exposure of loans and advances to banks amounted to GEL 481 thousand and GEL 2,415 thousand, respectively.

12. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2010	December 31, 2009
Originated loans to customers	9,943	6,113
Less: allowance for impairment losses	(154)	(151)
Total loans to customers	**9,789**	**5,962**

Movements in the allowance for impairment losses for the years ended December 31, 2010 and 2009 are disclosed in Note 5.

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Bank:

	December 31, 2010	December 31, 2009
Loans collateralized by pledge of real estate	5,567	4,496
Loans collateralized by combined collateral	2,253	1,420
Loans collateralized by vehicles	704	51
Loans collateralized by guarantees of enterprises	509	49
Loans collateralized by cash	114	50
Unsecured loans	796	47
Less: allowance for impairment losses	(154)	(151)
Total loans to customers	**9,789**	**5,962**

	December 31, 2010	December 31, 2009
Analysis by sector:		
Trade	4,517	3,432
Individuals	4,144	1,434
Construction	742	66
Agriculture	38	50
Finance sector	-	1,131
Other	502	-
Less: allowance for impairment losses	(154)	(151)
Total loans to customers	**9,789**	**5,962**

Loans to individuals comprise the following products:

	December 31, 2010	December 31, 2009
Consumer loans	2,899	887
Mortgage loans	1,224	500
Car loans	21	47
	4,144	1,434
Less: allowance for impairment losses	(99)	(64)
Total loans to individuals	**4,045**	**1,370**

As at December 31, 2010 and 2009 the Bank granted loans to three and two customers, totaling GEL 2,328 thousand and GEL 1,852 thousand, respectively, which individually exceeded 5% of the Bank's equity.

As at December 31, 2010 and 2009 all loans were granted to companies operating in Georgia, which represents a significant geographical concentration in one region.

As at December 31, 2010 and 2009 loans to customers included loans totaling GEL 847 thousand and GEL 242 thousand, 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, 2010			**December 31, 2009**		
	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	2,497	(19)	2,478	759	(87)	672
Loans to customers collectively determined to be impaired	2,772	(135)	2,637	1,433	(64)	1,369
Unimpaired loans	4,674	-	4,674	3,921	-	3,921
Total	**9,943**	**(154)**	**9,789**	**6,113**	**(151)**	**5,962**

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings and other real estate	Furniture and fixture	Computers and office equipment	Vehicles	Other	Leasehold improve-ment	Total
At initial cost							
December 31, 2008	1,988	737	364	320	123	126	3,658
Additions	-	-	1	-	-	-	1
Disposals	-	-	-	-	-	(126)	(126)
December 31, 2009	1,988	737	365	320	123	-	3,533
Additions	-	-	11	-	-	-	11
December 31, 2010	1,988	737	376	320	123	-	3,544
Accumulated depreciation and impairment							
December 31, 2008	4	30	22	36	5	118	215
Charge for the period	40	114	63	65	11	2	295
Eliminated on disposals	-	-	-	-	-	(120)	(120)
December 31, 2009	44	144	85	101	16	-	390
Charge for the year	40	114	61	64	11	-	290
December 31, 2010	84	258	146	165	27	-	680
Net book value							
As at December 31, 2010	**1,904**	**479**	**230**	**155**	**96**	**-**	**2,864**
As at December 31, 2009	**1,944**	**593**	**280**	**219**	**107**	**-**	**3,143**

14. INTANGIBLE ASSETS

	Intangible assets
At cost	
December 31, 2008	200
Additions	27
December 31, 2009	227
Additions	80
Disposals	(14)
December 31, 2010	293
Accumulated amortization	
December 31, 2008	4
Charge for the period	25
December 31, 2009	29
Charge for the year	38
Eliminated on disposals	(14)
December 31, 2010	53
Net book value	
December 31, 2010	**240**
December 31, 2009	**198**

Intangible assets include software and licenses.

15. OTHER ASSETS

Other assets comprise:

	December 31, 2010	December 31, 2009
Other financial assets recognized as loans and receivables in accordance with IAS 39:		
Prepayments and receivables on other transactions	12	11
Other non-financial assets:		
Tax settlements, other than income tax	4	2
Total other assets	**16**	**13**

16. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2010	December 31, 2009
Recorded at amortized cost:		
Time deposits	366	65
Repayable on demand	642	425
Total customer accounts	**1,008**	**490**

Included in customer accounts is accrued interest in the amount of GEL 8 thousand and GEL 1 thousand as at December 31, 2010 and 2009, respectively.

As at December 31, 2010 and 2009, customer accounts in the amount of GEL 12 thousand and GEL 3 thousand were held as security against guarantees issued.

As at December 31, 2010 and 2009 customer accounts totaling GEL 614 thousand (66%) and GEL 418 thousand (85%), respectively, were due to ten customers, which represents significant concentration.

	December 31, 2010	December 31, 2009
Analysis by sector:		
Trade	432	230
Individuals	284	87
Finance	170	-
Construction	94	162
Energy	2	3
Agriculture	1	3
Other	25	5
Total customer accounts	**1,008**	**490**

17. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2010	December 31, 2009
Other financial liabilities:		
Creditors	42	26
Other non-financial liabilities:		
Taxes payable, other than income tax	-	17
Other	2	2
Total other liabilities	**44**	**45**

18. SUBORDINATED DEBT

	Currency	Maturity date year	Interest rate %	December 31, 2010	December 31, 2009
Subordinated debt from related parties	GEL	17 July, 2016	7%	1,641	1,542
Total subordinated debt				**1,641**	**1,542**

Included in subordinated debt is accrued interest in the amount of GEL 241 thousand and GEL 142 thousand as at December 31, 2010 and 2009, 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. The effective rate for the subordinated loan is 5.3%.

19. SHARE CAPITAL

As of December 31, 2010 and 2009 authorized, issued and paid in share capital consisted of 12,000,000 ordinary shares with par value of GEL 1 each.

20. 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, 2010 and 2009.

As at December 31, 2010 and 2009 contingent liabilities comprise:

	December 31, 2010	December 31, 2009
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	544	87
Commitments on loans and unused credit lines	769	539
Total contingent liabilities and credit commitments	**1,313**	**626**

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, 2010 and 2009 such unused credit lines come to GEL 769 thousand and GEL 539 thousand, respectively.

Capital commitments – The Bank had no capital commitments as at December 31, 2010 and 2009.

Operating lease commitments – The Bank has no lease commitments as at December 31, 2010 and 2009.

Legal proceedings – During the year ended December 31, 2010 and the period from December 31, 2009 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 – Due to the presence in Georgian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on the management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may by assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions, market level for deals' pricing and especially valuation of current income tax assets arising on interest income withholding tax that was withheld at the source of payment of interest income to the Bank. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements.

Pensions and retirement plans – Employees receive pension benefits from Government of Georgia in accordance with the laws and regulations of Georgia. As at December 31, 2010 and 2009, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating Environment – Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Georgia and the Georgia's economy in general.

Laws and regulations affecting businesses in Georgia continue to change rapidly. Tax, currency and customs legislation within Georgia are 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 economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has negatively affected Georgia's financial and capital markets in 2008 and 2009 has receded and Georgia's economy returned to growth in 2010. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Georgia's economy, 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.

21. 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, 2010		**December 31, 2009**	
	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	1,089	9,943	906	6,113
- *ultimate shareholder*	612		551	
- *key management personnel of the Bank or its parent*	393		321	
- *other related parties*	84		34	
Allowance for impairment losses on loans to customers	(6)	(154)	(18)	(151)
- *ultimate shareholder*	(1)		(11)	
- *key management personnel of the Bank or its parent*	(0)		(6)	
- *other related parties*	(5)		(1)	
Customer accounts	184	1,008	47	490
- *ultimate shareholder*	108		2	
- *key management personnel of the Bank or its parent*	26		1	
- *other related parties*	50		44	
Subordinated debt	1,641	1,641	1,542	1,542
- *ultimate shareholder*	1,641		1,542	
Guarantees issued and credit commitments	71	1,313	58	626
- *ultimate shareholder*	8			
- *key management personnel of the Bank or its parent*	8		5	
- *other related parties*	55		53	

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

	Year ended December 31, 2010		Year ended December 31, 2009	
	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	367	1,115	416	1,159

Included in the statement of comprehensive income for the year ended December 31, 2010 and for the year ended December 31, 2009 are the following amounts which were recognized in transactions with related parties:

	Year ended December 31, 2010		Year ended December 31, 2009	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income	60	2,434	46	1,713
- ultimate shareholder	48		26	
- key management personnel of the Bank or its parent	12		20	
Interest expense	(106)	(123)	(106)	(109)
- ultimate shareholder	(106)		(106)	
Provision for impairment losses on interest bearing assets	12	(3)	(17)	(75)
- ultimate shareholder	10		(11)	
- key management personnel of the Bank or its parent	6		(5)	
- other related parties	(4)		(1)	

22. 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, 2010		December 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the NBG	641	641	1,263	1,263
Due from banks	481	481	2,415	2,415
Loans to customers	9,789	9,789	5,962	5,962
Other financial assets	12	12	11	11
Customer accounts	1,008	1,008	490	490
Other financial liabilities	42	42	26	26
Subordinated debt	1,641	1,341	1,542	1,242

23. 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 capital structure of the Bank consists of equity attributable to equity holders of the parent, comprising issued capital and accumulated deficit 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.

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, 2010	**December 31, 2009**
Movement in tier 1 capital:		
At 1 January	11,048	11,455
Net profit (loss)	354	(407)
At December 31	**11,402**	**11,048**

	December 31, 2010	**December 31, 2009**
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	12,000	12,000
Accumulated deficit	(598)	(952)
Total qualifying tier 1 capital	11,402	11,048
Subordinated debt	1,641	1,542
Total regulatory capital	**13,043**	**12,590**
Capital Ratios:		
Tier 1 capital	64.87%	91.27%
Total capital	75.65%	103.45%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total capital (12%) and tier 1 capital (8%) to risk weighted assets.

As at December 31, 2010 and 2009 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.

24. 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 processes 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.

As at December 31, 2010:

	Maximum exposure
Balances with the NBG	218
Due from banks	481
Loans to customers	9,789
Other financial assets	12
Guarantees issued and similar commitments	544
Commitments on loans and unused credit lines	769

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

Financial assets are graded according to the current credit rating , 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 2010 and 2009 the balances with the NBG amounted to GEL 218 thousand and GEL189 thousand, respectively. The credit rating of Georgia according to the international rating agencies in 2010 corresponded to investment level B+.

The following table details credit ratings of financial assets held by the Bank as at December 31, 2010:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2010
Balances with the NBG	-	-	-	218	-	-	218
Due from banks	-	-	-	165	316	-	481
Loans to customers	-	-	-	-	-	9,789	9,789
Other financial assets	-	-	-	-	-	12	12

As at December 31, 2009:

	AAA	AA	A	BBB	<BBB	Not rated	Total at December 31, 2009
Balances with the NBG	-	-	-	189	-	-	189
Due from banks	-	-	-	1,626	789	-	2,415
Loans to customers	-	-	-	-	-	5,962	5,962
Other financial assets	-	-	-	-	-	11	11

The banking industry is generally exposed to credit risk through its loans to customers and interbank 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 series 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 year 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 for 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.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2010 Total
FINANCIAL ASSETS						
Due from banks	316	-	-	-	-	316
Loans to customers	441	2,428	2,153	4,385	382	9,789
Total interest bearing financial assets	757	2,428	2,153	4,385	382	10,105
Cash and balances with the NBG	641	-	-	-	-	641
Due from banks	165	-	-	-	-	165
Other financial assets	12	-	-	-	-	12
Total financial assets	**1,575**	**2,428**	**2,153**	**4,385**	**382**	**10,923**
FINANCIAL LIABILITIES						
Customer accounts	112	101	145	8	-	366
Subordinated debt	-	-	-	-	1,641	1,641
Total interest bearing financial liabilities	112	101	145	8	1,641	2,007
Customer accounts	642	-	-	-	-	642
Other financial liabilities	-	42	-	-	-	42
Total financial liabilities	**754**	**143**	**145**	**8**	**1,641**	**2,691**
Liquidity gap	821	2,285	2,008	4,377	(1,259)	
Cumulative liquidity gap	821	3,106	5,114	9,491	8,232	
Interest sensitivity gap	645	2,327	2,008	4,377	(1,259)	

	Up to 1 month	1 month to 3 months	3 months 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)	

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 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2010 Total
FINANCIAL LIABILITIES							
Customer accounts	14.50%	104	106	163	11	-	384
Subordinated debt	7.00%	-	-	-	-	2,184	2,184
Total interest bearing financial liabilities		104	106	163	11	2,184	2,568
Customer accounts		642	-	-	-	-	642
Other financial liabilities		-	42	-	-	-	42
Total financial liabilities		**746**	**148**	**163**	**11**	**2,184**	**3,252**

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months 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%	-	-	-	-	2,184	2,184
Total interest bearing financial liabilities		3	5	60	-	2,184	2,252
Customer accounts		425	-	-	-	-	425
Other financial liabilities		-	26	-	-	-	26
Total financial liabilities		**428**	**31**	**60**	-	**2,184**	**2,703**

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.

Interest rate sensitivity

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Bank's management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax:

	December 31, 2010		December 31, 2009	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Financial assets:				
Due from banks	3	(3)	30	(30)
Loans to customers	97	(97)	54	(54)
Financial liabilities:				
Customer accounts	(4)	4	(3)	3
Subordinated debt	(14)	14	(14)	14
Net impact on profit before tax	**82**	**(82)**	**67**	**(67)**

Impact on equity:

	December 31, 2010		December 31, 2009	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Financial assets:				
Due from banks	2	(2)	26	(26)
Loans to customers	82	(82)	46	(46)
Financial liabilities:				
Customer accounts	(3)	3	(3)	3
Subordinated debt	(12)	12	(12)	12
Net impact on equity	**69**	**(69)**	**57**	**(57)**

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 NBG.

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

	GEL	USD USD 1= GEL 1.7728	EUR EUR 1 = GEL 2.35	Other currency	December 31, 2010 Total
Financial assets					
Cash and balances with the NBG	443	146	44	8	641
Due from banks	316	140	11	14	481
Loans to customers	9,776	13	-	-	9,789
Other financial assets	3	9	-	-	12
Total financial assets	**10,538**	**308**	**55**	**22**	**10,923**
Financial liabilities					
Customer accounts	646	312	44	6	1,008
Other financial liabilities	-	42	-	-	42
Subordinated debt	1,641	-	-	-	1,641
Total financial liabilities	**2,287**	**354**	**44**	**6**	**2,691**
OPEN BALANCE SHEET POSITION	**8,251**	**(46)**	**11**	**16**	

	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**	

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.

Impact on net profit and equity based on asset values as at December 31, 2010 and 2009:

	December 31, 2010		**December 31, 2009**	
	GEL/USD +10%	**GEL/USD -10%**	**GEL/USD +10%**	**GEL/USD -10%**
Impact on profit or loss before tax	(5)	5	27	(27)
Impact on equity	(4)	4	23	(23)

	December 31, 2010		**December 31, 2009**	
	GEL/EUR +10%	**GEL/EUR -10%**	**GEL/EUR +10%**	**GEL/EUR -10%**
Impact on profit or loss before tax	1	(1)	149	(149)
Impact on equity	-	-	127	(127)

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.