TBC BANK GROUP

Consolidated Financial Statements and Auditors’ Report

31 December 2008

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of TBC Bank Group:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia branch

25 May 2009

In thousands of GEL	Notes	31 December 2008	31 December 2007 Restated
ASSETS			
Cash and cash equivalents	7	355,746	169,240
Due from other banks	8	47,770	95,587
Loans and advances to customers	9	1,288,042	1,128,701
Investment securities available for sale	10	4,729	5,219
Current income tax prepayment		3,922	6,808
Investment securities held to maturity	11	21,207	114,596
Other financial assets	12	4,284	18,671
Investments in leases	13	23,766	19,579
Other assets	14	14,899	20,611
Premises and equipment	15	160,502	118,170
Intangible assets	15	5,439	2,199
Goodwill	16	2,020	758
TOTAL ASSETS		**1,932,326**	**1,700,139**
LIABILITIES			
Due to other banks	17	29,510	92,356
Customer accounts	18	844,822	779,539
Other borrowed funds	21	708,443	433,042
Deferred income tax liability	30	1,441	13,786
Provisions for liabilities and charges	19, 33	5,324	1,098
Other financial liabilities	20	3,004	3,962
Other liabilities		6,474	7,965
Subordinated debt	22	75,819	55,881
TOTAL LIABILITIES		**1,674,837**	**1,387,629**
EQUITY			
Share capital	23	11,700	11,700
Additional paid-in capital	23	138,748	138,131
Retained earnings		69,089	126,722
Other reserves	25	32,787	35,385
Net assets attributable to the Bank's equity holders		**252,324**	**311,938**
Minority interest		**5,165**	**572**
TOTAL EQUITY		**257,489**	**312,510**
TOTAL LIABILITIES AND EQUITY		**1,932,326**	**1,700,139**

Approved for issue and signed on behalf of the Board of Directors on 25 May 2009

Paata Gadzadze
First Deputy Chief Executive Officer
on behalf of Chief Executive Officer

Vano Baliashvili
Deputy Chief Executive Officer

In thousands of GEL	**Note**	**2008**	**2007 Restated**
Interest income	26	295,523	171,672
Interest expense	26	(122,810)	(81,353)
Net interest income		**172,713**	**90,319**
Provision for loan impairment	9	(195,592)	(26,494)
(Net interest expense) / net interest income after provision for loan impairment		**(22,879)**	**63,825**
Fee and commission income	27	32,407	25,579
Fee and commission expense	27	(5,060)	(4,227)
Gains less losses from trading in foreign currencies		26,201	17,052
Foreign exchange translation gains less losses		4,114	(1,115)
Impairment of investment securities available for sale	10	(270)	-
Gains from disposals of investment securities available for sale	10	6,319	191
(Provision)/recovery of provision for credit related commitments	19	(4,226)	992
Impairment of leasing receivables	15	(2,202)	(250)
(Provision)/recovery of provision for other transactions		(665)	1,059
Other operating income	28	6,028	5,026
Administrative and other operating expenses	29	(107,017)	(65,408)
Share in loss of associates		-	(1,174)
(Loss)/profit before tax		**(67,250)**	**41,550**
Income tax credit /(expense)	30	9,683	(9,873)
(Loss)/profit for the year		**(57,567)**	**31,677**
(Loss)/profit is attributable to			
Equity holders of the Bank		(57,634)	31,460
Minority interest		67	217
(Loss)/profit for the year		**(57,567)**	**31,677**

In thousands of GEL	Note	Attributable to equity holders of the Bank					Minority interest	Total equity
		Share capital	Additional Paid in Capital	Other Reserves (Note 25)	Retained earnings	Total		
Previously stated balance at 31 December 2006		**5,385**	**4,715**	**10,003**	**100,156**	**120,259**	**355**	**120,614**
Effects of restatement	3	-	4,894	-	(4,894)	-	-	-
Restated balance at 31 December 2006		**5,385**	**9,609**	**10,003**	**95,262**	**120,259**	**355**	**120,614**
Revaluation of premises	15			29,126		29,126	-	29,126
Income tax recorded in equity	30	-	-	(3,744)	-	(3,744)	-	(3,744)
Net income recognised directly in equity		-	-	25,382	-	25,382	-	25,382
Profit for the year - restated		-	-	-	31,460	31,460	217	31,677
Total recognised income for year - restated		-		25,382	31,460	56,842	217	57,059
Share issue		6,145	127,447	-	-	133,592	-	133,592
Share based payment	23	170	1,075	-	-	1,245	-	1,245
Balance at 31 December 2007 - restated		**11,700**	**138,131**	**35,385**	**126,722**	**311,938**	**572**	**312,510**
Available for sale investments:								
- Fair value gains less losses	10, 25	-	-	7,889	-	7,889	-	7,889
- Disposals	25	-	-	(6,319)	-	(6,319)	-	(6,319)
Decrease in value due to revaluation of premises	15, 25	-	-	(7,554)	-	(7,554)	-	(7,554)
Currency translation differences		-	-	2,439	-	2,439	837	3,276
Income tax recorded in equity	25, 30	-	-	947	-	947	-	947
Net income recognised directly in equity		-	-	(2,598)	-	(2,598)	837	(1,761)
Loss for the year		-	-	-	(57,634)	(57,634)	67	(57,567)
Total recognised loss for the year		-	-	(2,598)	(57,634)	(60,232)	904	(59,328)
Share based payment	24	-	617	-	-	617		617
Business combinations	38	-	-	-	-	-	3,689	3,689
		-	-					
Balance at 31 December 2008		**11,700**	**138,748**	**32,787**	**69,089**	**252,324**	**5,165**	**257,489**

In thousands of GEL	Note	2008	2007 Restated
Cash flows from operating activities			
Interest received		281,221	167,048
Interest paid		(119,964)	(73,913)
Fees and commissions received		32,411	25,579
Fees and commissions paid		(5,059)	(4,227)
Income received from trading in foreign currencies		26,201	16,954
Other operating income received		9,725	1,683
Staff costs paid		(50,072)	(33,645)
Administrative and other operating expenses paid		(36,506)	(27,077)
Income tax refunded/(paid)		1,337	(10,730)
Cash flows from operating activities before changes in operating assets and liabilities		**139,294**	**61,672**
Changes in operating assets and liabilities			
Net (increase)/decrease in due from other banks		33,224	(16,111)
Net increase in loans and advances to customers		(346,251)	(575,732)
Net increase in investment in lease		(6,389)	(4,500)
Net (increase)/decrease in other financial assets		12,943	(17,703)
Net increase in other assets		(2,677)	(9,636)
Net increase/(decrease) in due to other banks		(62,846)	51,902
Net increase in customer accounts		60,328	226,742
Net decrease in other liabilities		(3,351)	(662)
Net cash used in operating activities		**(175,725)**	**(284,028)**
Cash flows from investing activities			
Acquisition of investment securities available for sale	10	(110)	(1,716)
Proceeds from disposal of investment securities available for sale	10	8,219	1,087
Acquisition of investment securities held to maturity	11	(190,059)	(709,190)
Proceeds from redemption of investment securities held to maturity	11	283,454	644,847
Acquisition of premises, equipment and intangible assets	15	(44,067)	(42,129)
Proceeds from disposal of premises, equipment and intangible assets	15	2,529	26
Cash acquired in acquisition		12,320	-
Net cash from/(used in) investing activities		**72,286**	**(107,075)**
Cash flows from financing activities			
Proceeds from other borrowed funds	21	889,722	420,758
Redemption of other borrowed funds	21	(626,401)	(194,590)
Proceeds from subordinated debt	22	19,234	30,126
Issue of ordinary shares		-	137,879
Net cash from financing activities		**282,555**	**394,173**
Effect of exchange rate changes on cash and cash equivalents		**7,390**	**(1,015)**
Net increase in cash and cash equivalents		**186,506**	**2,055**
Cash and cash equivalents at the beginning of the year		**169,240**	**167,185**
Cash and cash equivalents at the end of the year	7	**355,746**	**169,240**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for TBC Bank (the "Bank") and its subsidiaries (together referred to as the "Group" or "TBC Bank Group").

The Bank was incorporated and is domiciled in Georgia on 17 December 1992. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations.

The ultimate controlling parties of the Bank as at 31 December 2008 and 2007 were Mr. Mamuka Khazaradze and Mr. Badri Japaridze who achieved collective control through the direct and indirect ownership with the combined interest in the Bank's share capital of 66%. Other significant shareholders include International Finance Corporation and Deutsche Investitions und Entwicklungsgesellschaft MBH.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Georgia. The Bank has operated under a general banking license issued by the National Bank of the Georgia ("NBG") since 20 January 1993.

The Bank has 13 (2007: 13) branches and 43 (2007: 29) service centers within Georgia. As at 31 December 2008, the Group had 2,925 employees (2007: 1,965 employees).

The Bank is a parent of a group of companies (the "Group") incorporated in Georgia and Azerbaijan, primary business activities include providing banking, leasing, brokerage, card processing services, to corporate and individual customers. The list of companies included in the Group is provided in Note 3. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

Registered address and place of business. The Bank's registered address is: 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

Presentation currency. These consolidated financial statements are presented in thousands of Georgian Lari ("GEL thousands"), unless otherwise indicated.

2 Operating Environment of the Group

Georgia. Georgia displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of Georgia, relatively high inflation and economic growth. The banking sector in .Georgia is sensitive to adverse fluctuations in confidence and economic conditions. The Georgian economy occasionally experiences falls in confidence in the banking sector accompanied by reductions in liquidity. The tax, currency and customs legislation within .Georgia is subject to varying interpretations, and changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in Georgia.

Despite strong economic growth in recent years, the financial situation in the Georgian market has significantly deteriorated during 2008, particularly in the fourth quarter. Since September 2008, there has been increased volatility in currency markets and the Georgian Lari has depreciated against major foreign currencies. Georgia's economic environment and infrastructure was negatively impacted as a result of military conflict which occurred in August 2008. The prospects for future economic stability in Georgia are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, regulatory and political developments, which are beyond the Bank's control.

Management believes that it is impracticable to predict economic trends and developments in the banking sector and what effect, if any, a deterioration in the liquidity of or confidence in the Georgian banking system could have on the consolidated financial position of the Group.

2 Operating Environment of the Group (Continued)

Recent volatility in global and Georgian financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against. The volume of wholesale financing has significantly reduced since August 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Borrowers of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

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

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads. The market in Georgia for many types of real estate has been severely affected by the recent volatility in global financial markets. As such the carrying value of land and buildings measured at fair value in accordance with *IAS 16* has been updated to reflect market conditions at the reporting date. Furthermore, loans and advances to customers which recovery depends on realization of collateral have been reevaluated based on updated fair values of pledged assets. As a result, the Bank recorded significant loan impairment charge in 2008. Refer to Note 9.

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

3 Summary Significant Accounting Policies

Basis for preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises, available-for-sale financial assets, the initial recognition of financial instruments based on fair value and identifiable assets acquired and liabilities assumed in a business combination measured at their fair values at the acquisition date and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Going concern. Management prepared these financial statements on a going concern basis. Refer to Note 4 for uncertainties related to events and conditions that may cast a significant doubt upon the Group's ability to continue as a going concern.

3 Summary of Significant Accounting Policies (Continued)

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

The consolidated financial statements include the following principal subsidiaries:

Subsidiary	31 December 2008 Ownership / voting,%	31 December 2007 Ownership / voting,%	Country	Date of incorporation or acquisition	Industry
JSC TBC Leasing	89.53%	90.00%	Georgia	2003	Leasing
TBC Kredit LLC	75.0%	-	Azerbaijan	2008	Non-banking credit institution
TBC Broker LLC	100.00%	100.00%	Georgia	1999	Brokerage
JSC United Financial Corporation	90.81%	90.81%	Georgia	1997	Card processing

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer’s share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost (”negative goodwill”) is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

The Group holds more than 50% of voting rights in UFC International Limited but investment in and operations of the aforementioned entity are immaterial to the Group financial statements as a whole, and therefore this subsidiary is not consolidated.

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

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest forms a separate component of the Group’s equity.

3 Summary of Significant Accounting Policies (Continued)

Associates. Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. Refer to Note 10.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

3 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia ("NBG"), excluding mandatory reserves, and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the National Bank of Georgia. Mandatory cash balances with the National Bank of Georgia are carried at amortised cost and represent mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within three to six months. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

3 Summary of Significant Accounting Policies (Continued)

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience and the success of recovery of overdue amounts. Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

3 Summary of Significant Accounting Policies (Continued)

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

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group’s right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period’s profit or loss.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer’s share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

3 Summary of Significant Accounting Policies (Continued)

Premises and equipment. Premises and equipment, except for buildings and construction in progress, are carried at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Following initial recognition, buildings and construction in progress are carried at revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed frequently enough to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in the consolidated income statement to the extent of the decrease previously charged. A revaluation deficit is recognized in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Depreciation on revalued buildings is charged to consolidated income statement. Upon disposal of revalued property, any revaluation reserve relating to the particular asset being sold or retired is transferred to retained earnings.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	30 - 50 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 5 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 8 years; and
Leasehold improvements	lesser of 7 years or the term of the underlying lease

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software and licenses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortised on a straight line basis over expected useful lives of two to eight years.

3 Summary of Significant Accounting Policies (Continued)

Investments in leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Investments in leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of Investments in leases. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks and other borrowed funds. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Subordinated debt. Subordinated debt includes long-term non-derivative liabilities to international financial institutions and is carried at amortised cost. The repayment of subordinated debt ranks after all other creditors in case of liquidation and is included in "tier 2 capital" of the Bank.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with the legislation enacted or substantively enacted by the balance sheet date in the respective territories that the Bank and its subsidiaries operate. The income tax charge/credit comprises current tax and deferred tax and is recognised in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses

3 Summary of Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by Management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Share capital. Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as additional paid-in capital in equity.

Income and expense recognition. Interest income and expense are recorded in the consolidated income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

3 Summary of Significant Accounting Policies (Continued)

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of Georgia, Lari.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of respective territories that the Bank and its subsidiaries operate, at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

At 31 December 2008 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.667 (2007: USD 1 = GEL 1.5916); EUR 1 = GEL 2.3648 (2007: EUR 1 = GEL 2,3315).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

3 Summary of Significant Accounting Policies (Continued)

Share based payments. Under share-based compensation plan the Group receives services from top management as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the statement of operations, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Prior period errors. The Group corrects prior period material errors retrospectively in the financial statements after their discovery by restating the comparative amounts for the prior period presented in which the error occurred; and if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

In 2008, the Group identified an error made in the recording of share based payments in its financial statements as of and for the year ended 31 December 2007, namely the group calculated share based accrual using straight line method instead of using graded vesting schedule. The effect on the financial statements for the year ended 31 December 2007 as a result of the error was as follows:

In thousands of Georgian Lari	**As previously stated**	**Restatement**	**As restated**
Additional paid in capital	136,279	1,852	138,131
Retained earnings	128,574	(1,852)	126,722
Staff costs	35,697	(3,043)	32,654
Net income	28,634	3,043	31,677

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassifications is as follows:

In thousands of Georgian Lari	**As originally presented**	**Adjustment**	**As adjusted**
Cash and cash equivalents	183,833	(14,593)	169,240
Trading securities	363	(363)	-
Due from other banks	80,994	14,593	95,587
Loans and advances to customers	1,148,280	(19,579)	1,128,701
Intangible assets	-	2,199	2,199
Property, and equipment purchased for transfer into lease	326	(326)	-
Net investment in financial lease	-	19,579	19,579
Other financial assets	-	18,671	18,671
Other assets	40,793	(20,182)	20,611
Provision for liabilities and charges	-	1,098	1,098
Other financial liabilities	-	3,962	3,962
Other liabilities	13,022	(5,058)	7,964
Gains less losses from trading in foreign currencies	-	17,052	17,052
Foreign exchange translation gains less losses	15,937	(17,052)	(1,115)
Recovery of provision for credit related commitments	-	992	992
Recovery of provision for other transaction	1,801	(742)	1,059
Impairment of leasing receivables	-	(250)	(250)
Other operating income	9,722	(4,696)	5,026
Interest income	165,326	6,346	171,672
Administrative and other operating expenses	(67,127)	(1,323)	(68,450)
Share of profit of associate	-	(1,174)	(1,174)
Net loss on financial assets and liabilities at fair value through profit or loss	(846)	846	-

3 Summary of Significant Accounting Policies (Continued)

Significant changes in presentation were due to following:

- Reclassification of mandatory reserves with NBG in the amount of GEL 89,388 thousand from cash and cash equivalents to due from other banks, and reclassification of certain balances due from other banks with original maturities of less than three months in the amount of GEL 74,795 thousand from due from other banks to cash and cash equivalents to improve presentation of cash and cash equivalents;
- Net investments in finance leases in the amount of GEL 19,577 thousand which previously were included in loans and advances to customers are now presented separately on the face of balance sheet to provide better understanding of the balance sheet composition;
- Other financial assets previously included in other assets in the amount of GEL 18,671 thousand are now presented separately on the face of balance sheet to provide clear reconciliation of the categories of financial assets in accordance with IAS 39;
- Gains less losses from trading in foreign currency in the amount of GEL 17,052 thousand which previously were netted against foreign exchange translation gains and losses are now presented separately to provide better understanding of the nature of components of the statement of operations.

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Going concern*.** Management have prepared these consolidated financial statements on a going concern basis. In making this judgement, management have considered current intentions, the profitability of operations and access to financial resources.

As set out in Note 31, at 31 December 2008 the Group had a negative cumulative liquidity gap of GEL 448,190 thousand in the period up to 12 months. Furthermore, as discussed in Note 31, at 31 December 2008 the Bank was not in compliance with certain externally imposed capital requirements. The non-compliance to any externally imposed capital requirements, may lead to imposition of various sanctions, including but not limited to monetary penalties, restriction of distribution of dividends, retrieval of banking license, by regulatory body.

While recent global events have had a significant impact on the ability to obtain new or extended term borrowings from international financial institutions, and where available, the cost of funding has typically increased, management are actively managing this position and as a result of the following actions believe that the Group will have access to sufficient resources in order to continue to meet all of its liabilities as they fall due:

(i) Management believes that the Financial Supervising Agency of Georgia (the "FSA") will not take adverse actions against the Bank due to regulatory non-compliances and that the Bank was able to obtain necessary waivers from FSA dated 26 March 2009.

(ii) The management of the Bank is continuing negotiations with international financial institutions to obtain new debt and equity financing from them during the next six months. As part of those negotiations, the Bank received an approval from the above mentioned international financial institutions on 14 April 2009 to obtain a long-term financing package in the amount of approximately GEL 230,000 thousand to be disbursed in April-May 2009 which consists of the following elements:

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

- Share capital contribution: GEL 66,000 thousand;
- Subordinated loans: GEL 73,348 thousand with maturity of over 5 years;
- Senior loan facility: GEL 88,581 thousand with maturity of over 5 years

The above financial package will be used by the Group to finance its current liquidity gap up to twelve months. Refer to Note 31.

As at 8 May 2009, the Group has received GEL 53,868 thousand out of the share capital contribution and GEL 73,348 thousand out of the Subordinated loans to cover its short-term liquidity needs. Refer to Note 31.

(iii) The National Bank of Georgia expressed its readiness to support the Bank in overcoming the liquidity gap by prolonging the initial borrowing of GEL 45,000 thousand with initial maturity in March 2009 for an additional six months.

(iv) The Government of Georgia has taken a number of measures to prevent possible impact of global events on the local economy and financial system. As part of those measures, National Bank of Georgia decreased its mandatory reserve requirement from 13% to 5% on the 2 June 2008.

Impairment of available for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 8,364 thousand (2007: GEL 1,930 thousand), respectively. Impairment provisions for individually significant loans are based on the estimate of discounted future cash flows of the individual loans taking into account repayments and realisation of any assets held as collateral against the loan. A 5% increase or decrease in the actual future discounted cash flows from individually significant loans which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for loan loss provision of GEL 6,916 thousand (2007: GEL 573 thousand), respectively.

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 33.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. In management judgment, at December 31, 2008 and 2007, there were no loans and advances at other then market conditions. Terms and conditions of related party balances are disclosed in Note 37.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Goodwill. Recoverable amount of goodwill was estimated based on value in use calculation. Refer to Note 12.

Investments carried at cost. Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale (Caucasus Network LLC, JSC GRDC and other investments). The investments are carried at cost of GEL 3,159 thousand (2007: GEL 5,219 thousand). The investee has not published recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible.

5 Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Group from 1 January 2008:

- ***IFRIC 11, IFRS 2—Group and Treasury Share Transactions*** (effective for annual periods beginning on or after 1 March 2007);
- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 1 January 2008); and
- ***IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for annual periods beginning on or after 1 January 2008).

These interpretations did not have any significant effect on the Group's consolidated financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures **and a subsequent amendment,** ***Reclassification of Financial Assets: Effective Date and Transition.*** The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the year.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management does not expect IFRS 8 to affect the Group's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group does not expect the amended standard to have a material effect on its consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2008; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amended standard to have a material effect on its consolidated financial statements.

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

IFRIC 13, Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group is currently assessing the impact of the amendment to the standard on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have an impact on these consolidated financial statements as the Group does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's consolidated financial statements.

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

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

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

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

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

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

7 Cash and Cash Equivalents

In thousands of GEL	2008	2007
Cash on hand	82,990	71,893
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	35,414	22,549
Correspondent accounts and overnight placements with other banks	82,083	5,851
Placements with other banks with original maturities of less than three months	155,259	68,947
Total cash and cash equivalents	**355,746**	**169,240**

Interest rate analysis of cash and cash equivalents is disclosed in Note 31. The information on related party balances is disclosed in Note 37.

Credit rating of placements with other banks with original maturities of less than three months is as follows:

In thousands of GEL	2008	2007
A+	94,769	-
A	-	56,457
A-	18,337	-
BB	16,671	-
B	13,341	-
D	3,335	-
Not Rated	8,806	12,490
Total	**155,259**	**68,947**

Credit rating of correspondent accounts and overnight placements with other banks is as follows:

In thousands of GEL	2008	2007
A+	55,532	950
A	-	867
A-	2,992	-
AA+	-	243
AA	-	616
AA-	-	1,074
Not Rated	23,559	2,101
Total	**82,083**	**5,851**

8 Due from Other Banks

In thousands of GEL	2008	2007
Short-term placements with other banks with original maturities of more than three months	14,591	6,199
Mandatory cash balances with the National Bank of Georgia	33,179	89,388
Total due from other banks	**47,770**	**95,587**

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2008 is as follows:

In thousands of GEL	Short-term placements with other banks	Mandatory cash balances with the National Bank of Georgia	Total
Current and not impaired			
- Top ten Georgian banks	3,095	33,179	36,274
- Large OECD Banks	11,496	-	11,496
Total current and not impaired	**14,591**	**33,179**	**47,770**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2007 is as follows:

In thousands of GEL	Short-term placements with other banks	Mandatory cash balances with the National Bank of Georgia	Total
Current and not impaired			
- Top ten Georgian banks	-	89,388	89,388
- Large OECD Banks	6,199	-	6,199
Total current and not impaired	**6,199**	**89,388**	**95,587**
Total due from other banks	**6,199**	**89,388**	**95,587**

Credit rating of amounts due from large OECD Banks is as follows:

In thousands of GEL	2008	2007
A+	10,428	357
A	-	637
BBB	3,095	-
Not Rated	1,068	5,205
Total due from large OECD banks	**14,591**	**6,199**

At 31 December 2008 the Group had balances with five counterparty banks (2007: two banks) with aggregated amounts above GEL 1,000 thousand. The total aggregate amount of these deposits was GEL 44,548 thousand (2007: GEL 94,170 thousand) or 92% of the total amount due from other banks (2007: 99%). Refer to Note 35 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 31. Information on related party balances is disclosed in Note 37.

9 Loans and Advances to Customers

In thousands of GEL	2008	2007
Corporate loans	770,161	803,990
Consumer loans	258,597	126,338
Mortgage loans	199,096	138,615
Small and micro loans	175,936	75,288
Others	51,726	23,873
Less: Provision for loan impairment	(167,474)	(39,403)
Total loans and advances to customers	**1,288,042**	**1,128,701**

Movements in the provision for loan impairment during 2008 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and Micro loans	Total
Provision for loan impairment at 1 January 2008	**29,130**	**3,657**	**2,314**	**4,302**	**39,403**
Provision for impairment during the year	171,947	26,537	105	(2,997)	195,592
Amounts written off during the year as uncollectible	(58,810)	(8,199)	(116)	(396)	(67,521)
Provision for loan impairment at 31 December 2008	**142,267**	**21,995**	**2,303**	**909**	**167,474**

Loans and advances to customers written off in 2008 included loans to customers in the amount of GEL 48,184 thousand issued during 2008 and GEL 23,837 thousand issued in prior years.

During 2008, the Group issued loans to a shareholder related group of companies in the amount of GEL 39,180 thousand. Refer to Note 37 for more information.

Movements in the provision for loan impairment during 2007 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Total
Provision for loan impairment at 1 January 2007	**13,420**	**1,685**	**1,066**	**1,982**	**18,153**
Provision for impairment during the year	16,050	3,333	1,270	5,841	26,494
Amounts written off during the year as uncollectible	(340)	(1,361)	(22)	(3,521)	(5,244)
Provision for loan impairment at 31 December 2007	**29,130**	**3,657**	**2,314**	**4,302**	**39,403**

9 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2008		2007	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individuals	505,610	34.7%	300,349	25.71%
Trade and service	439,556	30.2%	463,628	39.69%
Construction	196,638	13.5%	141,521	12.12%
Manufacturing	116,558	8.0%	127,787	10.94%
Transport and communication	42,139	2.9%	43,566	3.73%
Agricultural	28,980	2.0%	25,082	2.15%
Gold pawn loans	28,604	2.0%	13,409	1.15%
Energy	23,088	1.6%	18,162	1.55%
Other	74,343	5.1%	34,600	2.96%
Total loans and advances to customers (before impairment)	**1,455,516**	**100.00%**	**1,168,104**	**100.00%**

At 31 December 2008 the Group had 44 borrowers (2007: 42 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 493,945 thousand (2007: GEL 444,959 thousand) or 34% of the gross loan portfolio (2007: 38%).

Information about collateral at 31 December 2008 is as follows:

In thousands of GEL	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Small and micro loans**	**Others**	**Total**
Unsecured loans	104,909	115,024	9,932	8,000	1,309	**239,174**
Loans collateralised by:						
- real estate	517,923	31,915	187,997	151,694	-	**889,529**
- inventory and equipment	85,425	111,340	1,011	10,988	-	**208,764**
- gold	-	-	-	-	29,398	**29,398**
- cash deposits	7,149	279	41	4,934	21,019	**33,422**
- other assets	54,755	39	115	320	-	**55,229**
Total loans and advances to customers	**770,161**	**258,597**	**199,096**	**175,936**	**51,726**	**1,455,516**

Information about collateral at 31 December 2007 is as follows:

In thousands of GEL	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Small and micro loans**	**Others**	**Total**
Unsecured loans	177,538	38,769	11,103	5,621	343	**233,374**
Loans collateralised by:						
- real estate	441,932	23,535	125,886	57,191	3	**648,547**
- inventory and equipment	125,996	63,794	1,098	11,610	2	**202,500**
- gold	-	-	-	-	13,627	**13,627**
- cash deposits	14,213	168	187	471	9,898	**24,937**
- other assets	44,312	72	341	394	-	**45,119**
Total loans and advances to customers	**803,991**	**126,338**	**138,615**	**75,287**	**23,873**	**1,168,104**

9 Loans and Advances to Customers (Continued)

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

In thousands of GEL	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Small and micro loans**	**Others**	**Total**
Current and not impaired						
- Borrowers with credit history over two years – at original terms	179,961	39,556	97,486	50,076	7,341	374,420
- Borrowers with credit history over two years – renegotiated in 2008	2,287	3,003	5,078	4,588	55	15,011
- new borrowers – at original terms	116,695	166,977	80,266	95,836	43,401	503,175
- new borrowers – renegotiated in 2008	249	2,520	1,997	6,418	930	12,114
Total current and not impaired	**299,192**	**212,057**	**184,827**	**156,918**	**51,726**	**904,720**
Past due but not impaired						
- less than 30 days overdue	5,941	3,348	1,117	3,353		13,760
- 30 to 90 days overdue	169	3,565	863	955		5,553
- 90 to 180 days overdue	1,933	3,502	596	167		6,198
- 180 – 360 days overdue	-	1,187	606	197		1,990
Total past due but not impaired	**8,043**	**11,603**	**3,182**	**4,673**	**-**	**27,500**
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	374,896	-	-	-	-	374,896
- 30 to 90 days overdue	12,530	-	-	-	-	12,530
- 90 to 180 days overdue	26,090	-	-	-	-	26,090
- 180 – 360 days overdue	23	-	-	-	-	23
Total individually impaired loans (gross)	**413,538**	**-**	**-**	**-**	**-**	**413,538**
Gross carrying value of other loans	**49,388**	**34,937**	**11,088**	**14,345**	**-**	**109,758**
Less impairment provisions	**142,267**	**21,995**	**2,303**	**909**	**-**	**167,474**
Total loans and advances to customers	**627,894**	**236,602**	**196,793**	**175,027**	**51,726**	**1,288,042**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2007 is as follows:

In thousands of GEL	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Small and micro loans**	**Others**	**Total**
Current and not impaired						
- Borrowers with credit history over two years – at original terms	270,733	22,448	54,244	20,251	2,984	370,660
- Borrowers with credit history over two years – renegotiated in 2008	29,665	3,031	4,253	222	121	37,292
- new borrowers – at original terms	348,758	92,242	72,675	49,794	20,669	584,138
- new borrowers – renegotiated in 2008	14,437	2,546	2,533	3,463	99	23,078
Total current and not impaired	**663,593**	**120,267**	**133,705**	**73,730**	**23,873**	**1,015,168**
Past due but not impaired						
- less than 30 days overdue	923	796	609	39	-	2,367
- 30 to 90 days overdue	2,617	319	755	-	-	3,691
- 90 to 180 days overdue	-	191	378	-	-	569
- 180 – 360 days overdue	-	42	17	-	-	59
- over 360 days overdue	-	20	83	-	-	103
Total past due but not impaired	**3,540**	**1,368**	**1,842**	**39**	**-**	**6,789**
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	108,229	-	-	-	-	108,229
- 30 to 90 days overdue	2,184	-	-	-	-	2,184
- 90 to 180 days overdue	14,473	-	-	-	-	14,473
- 180 – 360 days overdue	118	-	-	-	-	118
Total individually impaired loans (gross)	**125,004**	**-**	**-**	**-**	**-**	**125,004**
Gross carrying value of other loans	**11,853**	**4,703**	**3,068**	**1,519**	**-**	**21,143**
Less impairment provisions	**29,130**	**3,657**	**2,314**	**4,302**	**-**	**39,403**
Total loans and advances to customers	**774,860**	**122,681**	**136,301**	**70,986**	**23,873**	**1,128,701**

At 31 December 2008, interest accrual on individually impaired loans was GEL 10,766 thousand (2007: GEL 865 thousand).

The primary factors that the Group considers whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated (refer to table above). Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

9 Loans and Advances to Customers (Continued)

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2008 was as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Total
Fair value of collateral - loan past due but not impaired					
- real estate	6,975	1,406	3,027	4,331	15,739
- inventory and equipment	1,346	9,882	69	115	11,412
- cash deposits	-	1	-	-	1
Fair value of collateral - individually impaired loans					
- real estate	288,342	-	-	-	288,342
- inventory and equipment	49,351	-	-	-	49,351
Total	**346,014**	**11,289**	**3,096**	**4,446**	**364,845**

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2007 was as follows:

In thousands of GEL-	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Total
Fair value of collateral - loan past due but not impaired					
- real estate	3,589	268	1,842	10	5,709
- inventory and equipment	-	1,042	-	-	1,042
- cash deposits	-	59	-	29	88
Fair value of collateral - individually impaired loans					
- real estate	70,049	-	-	-	70,049
- inventory and equipment	19,930	-	-	-	19,930
- other assets	3,762	-	-	-	3,762
Total	**97,330**	**1,369**	**1,842**	**39**	**100,580**

The Group's internal appraiser performed physical inspection of pledged real estate and estimated the fair value of real estate at the balance sheet date using primarily market comparison method. Fair value of inventory, equipment and other assets was determined by the Group's credit department using bank's internal guidelines. Amount of fair value of collateral is disclosed to the extent of credit exposure.

Refer to Note 35 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 31. Information on related party balances is disclosed in Note 37.

10 Investment Securities Available for Sale

In thousands of GEL	2008	2007
Corporate shares – unquoted	3,159	5,219
Corporate shares – quoted (VISA Inc)	1,570	-
Total investment securities available for sale	**4,729**	**5,219**

The movements in investment securities available for sale are as follows:

In thousands of GEL	2008	2007
Carrying amount at 1 January	**5,219**	**4,590**
Purchases	110	1,716
Revaluation of investment securities available for sale	7,889	-
Disposals of investment securities available for sale	(8,219)	(1,087)
Impairment of investment securities available for sale	(270)	-
Carrying amount at 31 December	**4,729**	**5,219**

At 31 December 2008 the principal equity investment securities available for sale are:

Name	**Nature of business**	**Country of registration**	**Cost 2008**	**2007**
JSC GRDC	Property development	Netherlands Antilles (Curacao)	1,502	1,772
Visa Inc.	Card Processing	San Francisco, USA	1,570	-
LLC Caucasus Online	Internet provider	Georgia	1,332	1,332
LLC Nikora	Trade	Georgia	-	1,902
Other			325	213
Total			**4,729**	**5,219**

Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale. The investments are carried at cost of GEL 3,159 thousand (2007: GEL 5,219 thousand). The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

In 2008, the Group revalued its investment in Visa Inc. at fair value following the initial public offering. Immediately prior to the initial public offering Visa Inc. transferred membership fees received from its members into common shares. Proceeds from sale of a portion of such common shares during initial public offering were recorded as gain from investments available for sale in the statement of operations. Any subsequent changes in fair value were recorded directly in the statement of changes in equity, net of tax effect.

In 2008, the Group sold its investment in shares of Nikora LLC, previously carried at cost of GEL 1,900 thousand and recognised a gain of GEL 4,920 thousand on the sale in the statement of profit or loss.

11 Investment Securities Held to Maturity

In thousands of GEL	**2008**	**2007**
Certificates of Deposit of National Bank of Georgia	21,151	114,596
Corporate Bonds	56	-
Total investment securities held to maturity	**21,207**	**114,596**

The movement in investment securities held to maturity is as follows:

In thousands of GEL	**2008**	**2007**
Gross amount at 1 January	**114,596**	**50,253**
Additions	190,059	709,190
Redemption	(283,454)	(644,847)
Interest income accrual	6	-
Gross amount at 31 December	**21,207**	**114,596**

Refer to Note 35 for the disclosure of the fair value of investment securities held to maturity. Interest rate analysis of investment securities held to maturity is disclosed in Note 31. Information on related party investment securities held to maturity is disclosed in Note 37.

12 Other Financial Assets

In thousands of GEL	**2008**	**2007**
Other financial receivables	2,835	15,669
Fee receivable on guarantees	773	573
Trading securities	136	135
Other	540	2,294
Total other financial assets	**4,284**	**18,671**

Analysis by credit quality of other financial receivables is as follows:

In thousands of GEL	**2008**	**2007**
Current and not impaired		
- Receivables on money transfer services	564	99
- Receivables on credit card services	807	1,783
- Interest receivable on guarantees	773	573
- Trading securities	136	135
- Prepayment for acquisition of subsidiary	-	13,371
- Other	2,004	2,710
Total other financial receivables	**4,284**	**18,671**

Trading securities comprising corporate shares are shares of Georgian companies (Mainly Peoples' Bank of Georgia). Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data using average prices from Georgian stock exchange, the Group does not analyse or monitor impairment indicators. Carrying value of each class of other financial assets approximates fair value at 31 December 2008 and 2007. Refer to Note 35.

13 Investments in Finance Lease

Investments in finance lease of GEL 23,766 thousand (2007: GEL 19,579 thousand) are represented by leases of equipment. Financial lease receivables are collateralized by leased equipment.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of GEL	**Due in 1 year**	**Due between 2 and 5 years**	**Total**
Finance lease payments receivable at 31 December 2008	**26,089**	**8,948**	**35,037**
Unearned finance income	(6,664)	(2,285)	**(8,949)**
Impairment loss provision	(1,729)	(593)	**(2,322)**
Present value of lease payments receivable at 31 December 2008	**17,696**	**6,070**	**23,766**
Finance lease payments receivable at 31 December 2007	**14,693**	**12,708**	**27,401**
Unearned finance income	(3,994)	(3,456)	**(7,450)**
Impairment loss provision	(199)	(173)	**(372)**
Present value of lease payments receivable at 31 December 2007	**10,500**	**9,079**	**19,579**

At 31 December 2008 the estimated fair value of financial lease receivables was GEL 23,766 thousand (2007: GEL 19,579 thousand). Refer to Note 31.

14 Other Assets

In thousands of GEL	**2008**	**2007**
Repossessed collateral	6,145	1,552
Prepayments for construction in progress	2,990	5,642
Prepayments for purchase of leasing assets	2,261	9,858
Inventories	1,522	575
Prepayments for other assets	793	1,780
Assets purchased for leasing purposes	677	326
Prepaid operating taxes	379	345
Other	132	533
Total other assets	**14,899**	**20,611**

Repossessed collateral represents real estate assets and equipment acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets are not classified as held for sale under IFRS 5 because the Group has yet to start to actively market them for sale. The assets were initially recognised at fair value when acquired.

The information on related party balances is disclosed in Note 37.

15 Premises, Equipment and Intangible Assets

In thousands of GEL	Note	Premises and leasehold improve-ments	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2007		31,189	17,965	12,256	**61,410**	1,536	**62,946**
Accumulated depreciation/amortisation		(2,131)	(6,048)	-	**(8,179)**	(993)	**(9,172)**
Carrying amount at 1 January 2007		**29,058**	**11,917**	**12,256**	**53,231**	**543**	**53,774**
Acquisitions through business combinations		-	1,278	-	**1,278**	401	**1,679**
Additions		501	18,694	23,046	**42,241**	1,826	**44,067**
Transfers		8,507	(628)	(7,879)	**-**		**-**
Disposals		(1,104)	(1,377)	(48)	**(2,529)**		**(2,529)**
Depreciation/amortization charge	29	(1,058)	(4,472)	-	**(5,530)**	(427)	**(5,957)**
Increase in value due to revaluation	25	22,660	-	6,466	**29,126**		**29,126**
Accumulated depreciation on acquired subsidiary		-	(711)	-	**(711)**	(144)	**(855)**
Accumulated depreciation eliminated on disposals		235	829	-	**1,064**		**1,064**
Carrying amount at 31 December 2007		**58,799**	**25,530**	**33,841**	**118,170**	**2,199**	**120,369**
Cost or valuation at 31 December 2007		61,753	35,932	33,841	**131,526**	3,763	**135,289**
Accumulated depreciation/amortisation		(2,954)	(10,402)	-	**(13,356)**	(1,564)	**(14,920)**
Carrying amount at 31 December 2007		**58,799**	**25,530**	**33,841**	**118,170**	**2,199**	**120,369**
Acquisitions through business combinations	38	-	165	-	**165**	-	**165**
Additions		3,671	29,713	35,128	**68,512**	4,265	**72,777**
Transfers		35,965	15	(35,980)	**-**		**-**
Disposals		(79)	(338)	(240)	**(657)**		**(657)**
Depreciation/amortization charge	29	(2,559)	(10,303)	-	**(12,862)**	(1,025)	**(13,887)**
Decrease in value charged to profit or loss	29	(3,330)	-	(1,925)	**(5,255)**		**(5,255)**
Decrease in value due to revaluation	25	(6,686)	-	(868)	**(7,554)**		**(7,554)**
Accumulated depreciation on acquired subsidiaries			(68)		**(68)**		**(68)**
Elimination of accumulated depreciation on disposals		25	26		**51**		**51**
Carrying amount at 31 December 2008		**85,806**	**44,740**	**29,956**	**160,502**	**5,439**	**165,941**
Cost or valuation at 31 December 2008		94,624	65,487	31,881	191,992	8,028	200,020
Accumulated depreciation/amortization including accumulated impairment loss		(8,818)	(20,747)	(1,925)	(31,490)	(2,589)	(34,079)
Carrying amount at 31 December 2008		**85,806**	**44,740**	**29,956**	**160,502**	**5,439**	**165,941**

15 Premises, Equipment and Intangible Assets (Continued)

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises.

Premises have been revalued to market value at 31 December 2008. The valuation was carried out by an independent firm of valuers which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was discounted cash flow, integrated cost estimation and sales comparison method. Fair values were estimated using appropriate valuation techniques using the following assumptions: certain weights were assigned to the results obtained using abovementioned methods, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifics of the estimated property.

Included in the above carrying amount is GEL 12,809 thousand (2007: GEL 29,124 thousand) representing revaluation decrease (2007: revaluation surplus) relating to premises and construction in progress of the Group. At 31 December 2008 the carrying amount of premises would have been GEL 113,329 thousand (2007: GEL 53,845 thousand) had the assets been carried at cost less depreciation. At 31 December 2008 the carrying amount of construction in progress would have been GEL 26,283 thousand (2007: GEL 27,375 thousand) had the assets been carried at cost less depreciation.

16 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In thousands of GEL	Note	2008	2007
Carrying amount at 1 January		**758**	**-**
Acquisition of subsidiary	38	1,262	1,237
Impairment loss	29	-	(479)
Carrying amount at 31 December		**2,020**	**758**
Gross book value		2,499	1,237
Accumulated impairment losses		(479)	(479)
Carrying amount at 31 December		**2,020**	**758**

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

In thousands of GEL	2008	2007
JSC United Financial Corporation	758	758
LLC TBC Kredit	1,262	-
Total carrying amount of goodwill	**2,020**	**758**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by Management covering a five-year period.

16 Goodwill (Continued)

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports.

The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs. If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 25% higher than Management's estimates, the Group would not need to reduce the carrying value of goodwill. Recoverable amount of JSC United Financial Corporation exceeds its carrying amount by GEL 3,121 thousand. The CGUs' carrying amount would equal to value in use at a discount rate of 50 % p.a.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 25% higher than Management's estimates, the Group would not need to reduce the carrying value of goodwill. Had impairment been recognised, the Group would not be able to reverse any impairment losses that arose on goodwill in subsequent periods even if circumstances improve. Recoverable amount of LLC TBC Kredit exceeds its carrying amount by GEL 13,801 thousand. The CGUs' carrying amount would equal to value in use at a discount rate of 39% p.a.

17 Due to Other Banks

In thousands of GEL	**2008**	**2007**
Correspondent accounts and overnight placements of other banks	11,182	6,465
Term placements of banks and financial institutions	18,328	85,891
Total due to other banks	**29,510**	**92,356**

Refer to Note 35 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 31. Information on related party balances is disclosed in Note 37.

18 Customer Accounts

In thousands of GEL	**2008**	**2007**
State and public organisations		
- Current/settlement accounts	18,980	21,415
- Term deposits	6,553	5,977
Other legal entities		
- Current/settlement accounts	268,876	260,995
- Term deposits	39,876	54,476
Individuals		
- Current/demand accounts	191,419	169,400
- Term deposits	319,118	267,276
Total customer accounts	**844,822**	**779,539**

State and public organisations include government owned profit orientated businesses.

18 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2008		2007	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individuals	510,538	60%	436,676	56%
Trade and services	162,510	19%	209,032	27%
Transport and communication	8,766	1%	21,990	3%
Construction	22,428	3%	23,072	3%
Energy	19,732	2%	7,359	1%
Mining and natural resource processing	7,084	1%	2,419	0%
Agriculture	197	0%	174	0%
Government	250	0%	551	0%
Other (state & municipalities)	113,317	13%	78,267	10%
Total customer accounts	**844,822**		**779,540**	**100%**

At 31 December 2008 the Group had 26 customers (2007: 25 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 173,360 thousand (2007: GEL 158,113 thousand) or 21% (2007: 20%) of total customer accounts.

At 31 December 2008 included in customer accounts are deposits of GEL 5,807 thousand and GEL 44,069 thousand (2007: GEL 33,356 thousand and GEL 46,270 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 33.

Refer to Note 35 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 31. Information on related party balances is disclosed in Note 37.

19 Provisions for Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In thousands of GEL	**Credit related commitments**	**Other**	**Total**
Carrying amount at 1 January 2007	**1,076**	**22**	**1,098**
Additions / (recovery) charged to profit or loss	4,248	(22)	**4,226**
Carrying amount at 31 December 2008	**5,324**	**-**	**5,324**

Credit related commitments: Specific provision was created against losses incurred on financial guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated. The balance at 31 December 2008 is expected to be utilised by March 2011.

The information on related party balances is disclosed in Note 37.

20 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of GEL	2007	2006
Debit or credit card payables	1,614	819
Security deposits for finance lease	1,390	3143
Total other financial liabilities	**3,004**	**3,962**

Refer to Note 35 for disclosure of the fair value of other financial liabilities.

21 Other Borrowed Funds

At 31 December 2008, other borrowed funds comprised following:

In thousands of GEL	Outstanding amount in original currency		Outstanding amount in GEL
	GEL	USD	
International financial institutions	-	77,438	129,088
Local banks and financial institutions	45,000	6,354	55,592
Foreign banks and financial institutions	13,550	305,037	522,047
Other financial institutions	1,716	-	1,716
Total	**60,266**	**388,829**	**708,443**

At 31 December 2008, the Bank was in breach of certain covenants in accordance with loan agreements with above financial institutions in the total amount of GEL 177,665 thousand. Refer to Notes 31 and 39.

Refer to Note 35 for the disclosure of the fair value of each class of amounts other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 31. Information on related party balances is disclosed in Note 37.

At 31 December 2007, loans from banks and financial institutions comprised of:

In thousands of GEL	Outstanding amount in original currency		Outstanding amount in GEL
	GEL	USD	
International financial institutions	-	83,789	133,359
Local banks and financial institutions	-	-	-
Foreign banks and financial institutions	17,817	177,096	299,683
Other financial institutions	-	-	-
Total	**17,817**	**260,885**	**433,042**

Refer to Note 35 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 31. Information on related party balances is disclosed in Note 37.

22 Subordinated Debt

At 31 December 2008, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Interest rate per annum	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	24-Feb-06	15-Feb-12	11%	10,534	17,561
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jun-18	Libor+6.5%	10,481	17,472
International Financial Corporation	16-Dec-04	15-Dec-11	Libor+4.5%	4,012	6,688
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	30-May-07	15-Apr-14	Libor+6.25%	20,455	34,098
Total subordinated debt				**45,482**	**75,819**

At 31 December 2008, the Bank was in breach of certain covenants in accordance with loan agreements with above financial institutions in the amount of GEL 75,819 thousand. Refer to Notes 31 and 39.

At 31 December 2007, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Interest rate per annum	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	24-Feb-06	15-Feb-12	11%	10,534	16,766
International Financial Corporation	16-Dec-04	15-Dec-11	Libor+4.5%	4,085	6,502
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	30-May-07	15-Apr-14	Libor+6.25%	20,491	32,613
Total subordinated debt				**35,110**	**55,881**

23 Share Capital

In thousands of GEL except for number of shares	Number of outstanding shares	Ordinary shares	Additional paid-in capital	Total
At 1 January 2007	**53,851**	**5,385**	**9,609**	**14,994**
New shares issued	61,448	6,145	127,447	**133,592**
Share based payments	1,701	170	1,075	**1,245**
At 31 December 2007	**117,000**	**11,700**	**138,131**	**149,831**
Share based payments	-	-	617	**617**
At 31 December 2008	**117,000**	**11,700**	**138,748**	**150,448**

All ordinary shares have a nominal value of GEL 100 per share (2007: GEL 100 per share) and rank equally. Each share carries one vote. Additional paid-in capital represents the excess of contributions received over the nominal value of shares issued.

24 Share Based Payments

In November 2005, Supervisory Board of the Group resolved to award 2,834 options to purchase Bank's ordinary shares to Bank's top management. Each share option converts into one ordinary share of JSC TBC Bank on exercise at the nominal value of GEL 100 each. The options carry neither rights to dividends nor voting rights. Share options are subject to 5 year vesting period. The fair value of the share options as at the grant date was estimated at GEL 2,420 per share option. Management expenses granted share options in operating expenses within staff costs.

In GEL except for number of share options	**2008**	**2007**
Cumulative number of share options granted	2,834	2,834
Number of options outstanding at the beginning of the year	1,133	2,834
Number of share options exercised	-	1,701
Number of options outstanding at the end of the year	1,133	1,133
Number of options exercisable at the end of the year	566	-
Value at grant date per share option (GEL)	2,420	2,420
Expense recognized as staff cost during the year	**617**	**1,075**

25 Other Reserves

In thousands of GEL	**Revaluation reserve for**		**Cumulative currency translation reserve**	**Total other reserves**
	Premises	**Available for sale securities**		
At 1 January 2007	**10,003**	**-**	**-**	**10,003**
Revaluation	29,126	-	-	29,126
Income tax effects	(3,744)	-	-	(3,744)
At 31 December 2007	**35,385**	**-**	**-**	**35,385**
Decrease in value due to revaluation	(7,554)	-	-	(7,554)
Fair value of investments available for sale	-	7,889	-	7,889
Realised revaluation reserve	-	(6,319)	-	(6,319)
Currency translation	-	-	2,439	2,439
Income tax effects	1,182	(235)	-	947
At 31 December 2008	**29,013**	**1,335**	**2,439**	**32,787**

Revaluation reserve for available for sale securities is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for premises and equipment is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal.

26 Interest Income and Expense

In thousands of GEL	2008	2007
Interest income		
Loans and advances to customers	274,566	153,411
Due from other banks	10,273	7,277
Investments in leases	6,013	4,239
Investment securities held to maturity	4,661	6,745
Other	10	0
Total interest income	**295,523**	**171,672**
Interest expense		
Due to other Banks	64,958	40,807
Term deposits of individuals	34,795	25,126
Term deposits of legal entities	11,024	4,769
Term placements of other banks	6,759	1,877
Current/settlement accounts	3,955	7,423
Correspondent accounts of other banks	1,319	1,351
Total interest expense	**122,810**	**81,353**
Net interest income	**172,713**	**90,319**

27 Fee and Commission Income and Expense

In thousands of GEL	2008	2007
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Plastic card operations	10,449	5,512
- Guarantees issued (Note 20)	8,278	8,135
- Settlement transactions	5,901	4,979
- Cash transactions	4,120	3,967
- Foreign exchange operations	421	385
- Other	3,238	2,601
Total fee and commission income	**32,407**	**25,579**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Plastic card operations	2,143	1,896
- Settlement transactions	760	732
- Cash transactions	507	151
- Guarantees received	462	577
- Foreign exchange operations	65	51
- Communication services	468	461
- Other	655	359
Total fee and commission expense	**5,060**	**4,227**
Net fee and commission income	**27,347**	**21,352**

28 Other Operating Income

In thousands of GEL	**2008**	**2007**
Gain from sale of inventory	2,121	-
Revenues from letters of credit	1,503	992
Administrative fee income from international financial institutions	1,216	250
Reimbursement from insurer	520	1,512
Gain on disposal of premises and equipment	129	-
Reimbursed taxes	-	1,527
Other	539	745
Total other operating income	**6,028**	**5,026**

29 Administrative and Other Operating Expenses

In thousands of GEL	**Note**	**2008**	**2007**
Staff costs		45,534	32,654
Depreciation and amortisation	15	13,887	5,957
Advertising and marketing services		8,161	5,233
Occupancy and rent		7,103	2,413
Decrease in value of premises due to revaluation	15	5,255	-
Communications and supply		4,493	1,748
Stationary and other office expenses		4,260	2,642
Professional services		3,477	3,714
Transportation and vehicle maintenance		2,620	1,778
Other costs of premises and equipment		1,587	574
Taxes other than on income		1,537	857
Security services		870	575
Business trip expenses		734	525
Impairment of goodwill	16	-	479
Other		7,499	6,259
Total administrative and other operating expenses		**107,017**	**65,408**

30 Income Taxes

Income tax credit comprises the following:

In thousands of GEL	**2008**	**2007**
Current tax	1,715	2,120
Deferred tax	(11,398)	7,753
Income tax credit/(expense) for the year	**(9,683)**	**9,873**

The income tax rate applicable to the majority of the Group's income is 15% (2007: 20%). The income tax rate applicable to the majority of subsidiaries income ranges from 15% to 22% (2007: 20%).

30 Income Taxes (Continued)

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of GEL	2008	2007
IFRS (loss)/profit before tax	**(67,250)**	**41,550**
Theoretical tax charge / (credit) at statutory rate (2008: 15%; 2007: 20%)	(10,088)	8,310
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	405	6,145
Effect of change in tax rate	-	(4,582)
Income tax expense/(credit) for the year	**(9,683)**	**9,873**

A deferred tax credit of GEL 957 thousand (2007: deferred tax expense GEL 3,744 thousand) has been recorded directly in equity in respect of the revaluation of the Group's premises. Refer to Notes 15 and 25. A deferred tax expense of GEL 235 thousand (2007: nil) has been recorded directly in equity in respect of the fair valuation of investment securities available for sale. Refer to Notes 10 and 25.

Differences between IFRS and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2007: 20%).

In thousands of GEL	31 December 2007	(Charged)/ credited to profit or loss	(Charged) / credited directly to equity	31 December 2008
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(14,491)	(5,850)	1,182	(19,159)
Loan impairment provision	579	2,443		3,022
Fair valuation of investment securities available for sale	-		(235)	(235)
Tax loss carry forwards	-	16,354	-	16,354
Other assets	126	(22)		104
Provisions	-	(1,527)	-	(1,527)
Net deferred tax asset/(liability)	**(13,786)**	**11,398**	**947**	**(1,441)**
Recognised deferred tax asset	705			19,480
Recognised deferred tax liability	(14,491)			(20,921)
Net deferred tax asset/(liability)	**(13,786)**			**(1,441)**

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

30 Income Taxes (Continued)

In thousands of GEL	31 December 2006	(Charged)/ credited to profit or loss	(Charged)/ credited directly to equity	31 December 2007
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(4,415)	(6,332)	(3,744)	(14,491)
Loan impairment provision	1,282	(703)		579
Other assets	844	(718)		126
Net deferred tax asset/(liability)	**(2,289)**	**(7,753)**	**(3,744)**	**(13,786)**
Recognised deferred tax asset	2,126			705
Recognised deferred tax liability	(4,415)			(14,491)
Net deferred tax asset/(liability)	**(2,289)**			**(13,786)**

31 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 33.

The Group structures the levels 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 geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by Management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Group established a number of credit committees which are responsible for approving credit limits for individual borrowers:

- The senior credit committee reviews and approves limits above GEL 1,500 thousand and meets daily;
- The Small and Micro (SME) credit committees review and approve credit limits below GEL 1,500 thousand and meet daily;
- The retail credit committee reviews and approves credits related to retail sector and meets daily.

Loan applications originated by the relevant client relationship managers are passed on to the relevant Credit Committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

31 Financial Risk Management (Continued)

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Board of Directors and Supervisory Board.

The Group's credit department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers appropriate to provide ageing and other information about credit risk as disclosed in Notes 9, 10, and 13.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

Currency risk. In respect of currency risk, the Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

	At 31 December 2008				**At 31 December 2007**			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	308,137	244,695	7,274	70,716	473,550	252,077	982	221,473
US Dollars	1,267,418	1,247,823	(6,688)	12,907	974,039	996,641	(31,384)	(22,602)
Euros	154,879	158,954	(709)	(4,784)	90,124	122,099	30,310	(31,975)
Other	12,618	1,374	-	11,244	2,008	1,730	-	278
Total	**1,743,052**	**1,652,846**	**(123)**	**90,083**	**1,539,721**	**1,372,547**	**(92)**	**167,174**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

	At 31 December 2008		**At 31 December 2007**	
In thousands of GEL	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US Dollars strengthening by 10%	(1,291)	(1,097)	2,260	1,921
US Dollars weakening by 10%	1,291	1,097	(2,260)	(1,921)
Euro strengthening by 10%	478	407	3,198	2,718
Euro weakening by 10%	(478)	(407)	(3,198)	(2,718)
Other strengthening by10%	(1,124)	(956)	(28)	(24)
Other weakening by 10%	1,124	956	28	24

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the group.

31 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a monthly basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

Interest rate risk is managed within the limit framework as established in accordance with the standards set by the Group. Interest rate risks are controlled via modified interest rate gap reporting. Scenario analysis is conducted periodically in order to analyse earnings and economic value sensitivity and monitor limits set by Asset & Liability Management committee. Interest rate hedging instruments utilized include Interest Rate CAP options on floating rate borrowings.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of GEL	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
31 December 2008					
Total financial assets	498,459	339,335	184,702	723,049	1,745,545
Total financial liabilities	797,716	621,217	117,960	124,705	1,661,598
Net interest sensitivity gap at 31 December 2008	**(299,257)**	**(281,882)**	**66,742**	**598,344**	**83,947**
31 December 2007					
Total financial assets	387,983	272,435	679,267	211,908	1,551,593
Total financial liabilities	722,499	396,015	99,683	146,584	1,364,781
Net interest sensitivity gap at 31 December 2007	**(334,516)**	**(123,580)**	**579,584**	**65,324**	**186,812**

At 31 December 2008, if interest rates at that date had been 200 basis points lower with all other variables held constant, profit for the year would have been GEL 2,870 thousand (2007: GEL 6,183 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 200 basis points higher, with all other variables held constant, profit would have been GEL 2,870 thousand (2007: GEL 6,183 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

31 Financial Risk Management (Continued)

	2008				2007			
In % p.a.	**GEL**	**USD**	**Euro**	**Other**	**GEL**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	2%	2%	3%	1%	4%	2%	4%	1%
Due from other banks	13%	4%	-	-	-	10%	-	-
Loans and advances to customers	24%	17%	20%	-	19%	16%	15%	-
Investment securities held to maturity	12%	-	-	-	10%	-	-	-
Liabilities								
Due to other banks	5%	8%	2%	-	6%	8%	7%	-
Customer accounts								
- current and settlement accounts	3%	3%	3%	-	2%	3%	2%	-
- term deposits	12%	11%	10%	-	12%	11%	8%	-
Other borrowed funds	14%	8%	-	-	14%	9%	-	-
Subordinated debt	-	10%	-	-	-	11%	-	-

The sign “-“ in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

Geographical risk concentrations. The geographical concentration of the Group’s financial assets and liabilities at 31 December 2008 is set out below:

In thousands of GEL	**Georgia**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	116,441	237,259	2,046	355,746
Due from other banks	36,229	11,541	-	47,770
Loans and advances to customers*	1,257,087	-	30,955	1,288,042
Investment securities available for sale	4,729	-	-	4,729
Investment securities held to maturity	21,207	-	-	21,207
Investments in leases	23,766	-	-	23,766
Other financial assets	4,285	-	-	4,285
Total financial assets	**1,463,744**	**248,800**	**33,001**	**1,745,545**
Non-financial assets	**185,160**	**-**	**1,621**	**186,781**
Total assets	**1,648,904**	**248,800**	**34,622**	**1,932,326**
Liabilities				
Due to other banks	29,510	-	-	29,510
Customer accounts	65,052	590,370	53,021	708,443
Other borrowed funds	844,822	-	-	844,822
Other financial liabilities	3,004	-	-	3,004
Subordinated debt	-	75,819	-	75,819
Total financial liabilities	**942,388**	**666,189**	**53,021**	**1,661,598**
Non-financial liabilities	**13,239**	**-**	**-**	**13,239**
Total liabilities	**955,627**	**666,189**	**53,021**	**1,674,837**
Net balance sheet position	**693,277**	**(417,389)**	**(18,399)**	
Credit related commitments	**89,102**	**-**	**-**	**89,102**

31 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Georgian counterparties actually outstanding to/from off-shore companies of these Georgian counterparties are allocated to the caption “Georgia”. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group’s assets and liabilities at 31 December 2007 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	106,922	61,415	902	169,239
Due from other banks	89,482	1,331	4,775	95,588
Loans and advances to customers	1,128,701	-	-	1,128,701
Investment securities available for sale	5,219	-	-	5,219
Investment securities held to maturity	114,596	-	-	114,596
Investments in leases	19,579			19,579
Other financial assets	18,671	-	-	18,671
Total financial assets	**1,483,170**	**62,746**	**5,677**	**1,551,593**
Non-financial assets	**148,546**	**-**	**-**	**148,546**
Total assets	**1,631,716**	**62,746**	**5,677**	**1,700,139**
Liabilities				
Due to other banks	28,680	44,769	18,908	92,357
Customer accounts	779,540	-	-	779,540
Other borrowed funds	905	432,136	-	433,041
Other financial liabilities	3,962	-	-	3,962
Subordinated debt	-	55,881	-	55,881
Total financial liabilities	**813,087**	**532,786**	**18,908**	**1,364,781**
Non-financial liabilities	**22,848**	**-**	**-**	**22,848**
Total liabilities	**835,935**	**532,786**	**18,908**	**1,387,629**
Net balance sheet position	**795,781**	**(470,040)**	**(13,231)**	**312,510**
Credit related commitments	**135,150**	**-**	**-**	**135,150**

Other price risk. The Group has limited exposure to equity price risk. Transactions in equity products are monitored and authorised by the Board of Directors. At 31 December 2008, if equity prices at that date had been 10% (2007: 10%) lower with all other variables held constant, profit/loss for the year would have been GEL 353 thousand (2007: GEL 535 thousand) lower, mainly as a result of impairment of corporate shares classified as available-for-sale and revaluation of trading and other corporate shares at fair value through profit or loss, and other components of equity would have been GEL 134 thousand (2007: GEL NIL) lower, mainly as a result of a decrease in the fair value of corporate shares classified as available for sale.

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets.

31 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. Liquidity risk is managed by the Asset/Liability Management Committee of the Group.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratio on a daily basis in accordance with the requirement of the Financial Supervising Agency of Georgia. This ratio is:

- Average liquidity ratio (LK, not less than 20%), which is calculated as the ratio of average liquid assets to average liquid liabilities for respective month, including borrowings from financial institutions with residual maturity up to 6 months and off-balance sheet liabilities up to 6 months; on demand; The ratio was 22.18% at 31 December 2008 (2007: 34.52%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities and analyses operational liquidity profile of the Group. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is managed by monitoring of future expected cash flows on clients and banking operations, which is a part of assets/liabilities management process. The Asset/Liability Management Committee sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. For liquidity management purposes, minimum stock of liquid assets to Liabilities/Assets and concentration limits in Assets and Liabilities are set by the Asset/Liability Management Committee and controlled by the Financial Risks Management Department.

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The maturity analysis of financial liabilities based on remaining undiscounted contractual obligations at 31 December 2008 is as follows:

In thousands of GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	30,929	-	-	-	-	30,929
Customer accounts – individuals	226,069	69,719	201,819	37,224	2,142	536,973
Customer accounts – other	297,134	28,533	15,899	721	-	342,287
Other financial liabilities	3,004	-	-	-	-	3,004
Other borrowed funds	71,787	232,589	220,987	168,848	84,970	779,181
Subordinated debt	4,314	-	6,235	75,318	34,162	120,029
Gross settled forwards	7,397	-	-	-	-	7,397
Financial guarantees	16,448	27,438	56,426	83,691	417	184,420
Other credit related commitments	89,465	-	-	-	-	89,465
Total potential future payments for financial obligations	**746,547**	**358,279**	**501,366**	**365,802**	**121,691**	**2,093,685**

31 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2007 is as follows:

In thousands of GEL	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	66,626	25,360	3,300	-	-	95,286
Customer accounts – individuals	191,210	41,916	185,819	40,807	1,392	461,144
Customer accounts – other	298,150	27,796	15,139	2,626	-	343,711
Other borrowed funds	47,182	4,186	151,305	283,094	-	485,767
Subordinated debt	2,692	-	5,147	45,130	34,646	87,615
Gross settled forwards	31,384	-	-	-	-	31,384
Financial guarantees	1,032	41,427	70,193	122,040	7,599	242,291
Other credit related commitments	9,620	20,271	40,927	47,649	16,683	135,150
Total potential future payments for financial obligations	**647,896**	**160,956**	**471,830**	**541,346**	**60,320**	**1,882,348**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Georgian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2008:

In thousands of GEL	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	321,518	34,229	-	-	-	355,747
Due from other banks	36,327	11,443	-	-	-	47,770
Loans and advances to customers	170,657	129,500	320,219	563,698	103,969	1,288,043
Investment securities available for sale	-	-	-	-	4,729	4,729
Investment securities held to maturity	21,150	-	56	-	-	21,206
Finance lease receivables	936	1,832	7,647	13,351	-	23,766
Other financial assets	4,284	-	-	-	-	4,284
Total financial assets	**554,872**	**177,004**	**327,922**	**577,049**	**108,698**	**1,745,545**
Liabilities						
Due to other banks	29,510	-	-	-	-	29,510
Customer accounts	519,077	91,918	196,917	34,767	2,143	844,822
Other borrowed funds	66,033	405,735	119,975	66,349	50,351	708,443
Other financial liabilities	3,004	-	-	-	-	3,004
Subordinated debt	2,471	73,348	-	-	-	75,819
Total financial liabilities	**620,095**	**571,001**	**316,892**	**101,116**	**52,494**	**1,661,598**
Net liquidity gap at 31 December 2008	**(65,223)**	**(393,997)**	**11,030**	**475,933**	**56,204**	**83,947**
Cumulative liquidity gap at 31 December 2008	**(65,223)**	**(459,220)**	**(448,190)**	**27,743**	**83,948**	

The above analysis is based on expected maturities, therefore the entire portfolio of trading securities is classified within demand and less than one month based on Management's assessment of the portfolio's realisability.

31 Financial Risk Management (Continued)

As discussed in Notes 21 and 22, the Bank was not in compliance with certain financial covenants in accordance with financing agreements with financial institutions in the amounts of GEL 177,665 thousand and GEL 75,819 thousand, accordingly. In accordance with IAS 1 (Revised) the total amount of due to banks and subordinated debts in the amount of GEL 253,484 thousand was reclassified to demand in the liquidity analyses as at 31 December 2008. Refer to Note 4 for specific steps undertaken by management under going concern and Note 39 for subsequent events.

The analysis by expected maturities may be summarised as follows at 31 December 2007:

In thousands of GEL	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	169,240	-	-	-	-	169,240
Due from other banks	56,233	7,520	26,108	5,566	160	95,587
Loans and advances to customers	58,779	71,624	263,767	556,538	177,993	1,128,701
Investment securities available for sale	-	-	-	-	5,219	5,219
Investment securities held to maturity	62,872	19,671	32,053	-	-	114,596
Finance lease receivables	2,112	1,232	5,649	10,586	-	19,579
Other financial assets	18,671	-	-	-	-	18,671
Total financial assets	**367,907**	**100,047**	**327,577**	**572,690**	**183,372**	**1,551,593**
Liabilities						
Due to other banks	64,581	24,593	3,183	-	-	92,357
Customer accounts	487,402	65,578	185,421	39,748	1,392	779,541
Other borrowed funds	43,302	-	129,176	260,563	-	433,041
Other financial liabilities	3,962	-	-	-	-	3,962
Subordinated debt	1,766	-	-	22,282	31,832	55,880
Total financial liabilities	**601,013**	**90,171**	**317,780**	**322,593**	**33,224**	**1,364,781**
Net liquidity gap at 31 December 2007	**(233,106)**	**9,876**	**9,797**	**250,097**	**150,148**	**186,812**
Cumulative liquidity gap at 31 December 2007	**(233,106)**	**(223,230)**	**(213,433)**	**36,664**	**186,812**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Moreover, the Group's liquidity risk management includes estimation of actual estimated maturities for its current deposits. The estimation is based on statistical methods applied to historic information on fluctuations of customer account balances.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

32 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by FSA and (ii) to safeguard the Group's ability to continue as a going concern. Compliance with capital adequacy ratios set by FSA is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and Chief Accountant.

Under the current capital requirements set by FSA banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared in the forms prescribed by FSA and comprises:

In thousands of GEL	**2008**	**2007**
Share capital	148,097	148,097
Retained earnings	61,544	124,564
General loan loss provisions (up to 1.25 % of risk – weighted assets)	18,915	21,942
Less intangible assets	(4,398)	(1,842)
Less Investments into subsidiary companies and capital of other banks	(19,920)	(6,232)
Subordinated debt	56,011	46,793
Total regulatory capital	**260,249**	**333,322**

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of GEL	**2008**	**2007**
Tier 1 capital		
Share capital	150,448	149,831
Retained earnings	69,089	126,722
Less: Goodwill	(2,020)	(758)
Minority interest	5,165	572
Total tier 1 capital	**222,682**	**276,367**
Tier 2 capital		
Revaluation reserves	32,787	35,385
Subordinated debt	58,482	48,559
Total tier 2 capital	**91,269**	**83,944**
Total capital	**313,951**	**360,311**

The Bank has not complied with all externally imposed capital requirements throughout 2008. The non-compliance to any externally imposed capital requirements, may lead to imposition of various sanctions, including but not limited to monetary penalties, restriction of distribution of dividends, retrieval of banking license, by regulatory body. However, management believes that the FSA will not take adverse actions and that the Bank is able to obtain necessary waivers from FSA.

In the period after the balance sheet date, the Group received additional funding in a form of additional capital contribution from its existing shareholders. Refer to Note 39.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Georgian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Georgian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

Georgian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of GEL	**2008**	**2007**
Not later than 1 year	23	56
Later than 1 year and not later than 5 years	972	519
Later than 5 years	481	354
Total operating lease commitments	**1,476**	**929**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was not in compliance with certain covenants as at 31 December 2008. The Bank obtained waivers from the lending entities that temporarily waived their rights to enforce compliance with the breached covenants. The management believes such breaches of covenants will not negatively effect the Bank's liquidity position. However, since waivers obtained were for the period of less then twelve months, in accordance with IAS 1 (Revised) the Bank reclassified its due to bank and subordinated debt balances in the amount of GEL 253,484 thousand into the demand category in the liquidity analyses as at 31 December 2008. Refer to Notes 21, 22, 31 and 39.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

33 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

In thousands of GEL	Note	2008	2007
Guarantees issued		165,789	214,219
Undrawn credit lines		89,102	135,150
Letters of credit		18,622	28,047
Less: Provision for credit related commitments	19	(5,324)	(1,098)
Total credit related commitments		**268,189**	**376,318**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of credit related commitments was GEL 269,880 thousand at 31 December 2008 (2007: GEL 376,318 thousand). Credit related commitments are denominated in currencies as follows:

In thousands of GEL	2008	2007
Georgian Lari	66,807	155,422
US Dollars	188,323	180,800
Euro	18,383	41,142
Other	-	52
Total	**273,513**	**377,416**

34 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

	2007		**2006**	
In thousands of GEL	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair values, at the balance sheet date, of				
- USD receivable on settlement (+)	-	-	-	-
- USD payable on settlement (-)	-	(6,688)	-	(31,384)
- Euros receivable on settlement (+)	-	-	30,310	-
- Euros payable on settlement (-)	-	(709)	-	-
- GEL receivable on settlement (+)	7,274	-	982	
- GEL payable on settlement (-)	-	-	-	-
Net fair value of foreign exchange forwards	**7,274**	**(7,397)**	**31,292**	**(31,384)**

35 Fair Value of Financial Instruments

Fair values of financial instruments are as follows at 31 December 2008:

In thousands of GEL	2008 Fair value	2008 Carrying value	2007 Fair value	2007 Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents	355,746	355,746	169,240	169,240
Due from other banks	47,770	47,770	95,587	95,587
Loans and advances to customers:				
- Corporate loans	976,980	994,990	879,278	879,278
- Consumer loans	257,853	258,585	126,338	126,338
- Mortgage loans	170,323	194,029	138,615	138,615
- Small and micro loans	7,123	7,912	23,865	23,873
Investment securities held to maturity	21,207	21,207	114,596	114,596
Other financial assets	4,284	4,284	18,671	18,671
TOTAL FINANCIAL ASSETS	**1,841,286**	**1,884,523**	**1,566,190**	**1,566,198**
FINANCIAL LIABILITIES				
Due to other banks	29,510	29,510	92,356	92,356
Customer accounts	844,822	844,822	779,539	779,539
Other financial liabilities	3,004	3,004	3,962	3,962
Other borrowed funds	708,443	708,443	433,042	433,042
Subordinated debt	75,819	75,819	55,881	55,881
TOTAL FINANCIAL LIABILITIES	**1,661,598**	**1,661,598**	**1,364,780**	**1,364,780**

Fair values are determined by management using valuation technique with inputs observable in markets, except for VISA for which quoted market prices were used.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Group used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in significantly different profit, income, total assets or total liabilities.

The fair value of investment securities available-for-sale has not been disclosed because their fair value cannot be measured reliably. Such investments are carried at cost, please refer to Note 4.

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

35 Fair Value of Financial Instruments (Continued)

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2008	**2007**
Due from other banks	4%	10%
Loans and advances to customers		
Corporate loans	20%	17%
Consumer loans	29%	22%
Mortgage loans	21%	16%
Small and Micro loans	24%	21%
Due to other banks		
- Correspondent accounts and overnight placements of other banks	5%	5%
- Term deposits of banks and other financial institutions	9%	8%
Customer accounts		
Current/settlement accounts of legal entities	2%	2%
Term deposits of legal entities	12%	10%
Current/demand accounts of individuals	5%	4%
Term deposits of individuals	11%	10%
Other borrowed funds		
- Loans from banks and other financial institutions - USD	8%	9%
- Loans from banks and other financial institutions - GEL	14%	14%
Subordinated debt	10%	11%

36 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories.

In thousands of GEL	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Held to maturity**	**Total**
ASSETS					
Cash and cash equivalents		-	-	-	355,746
Due from other banks	47,770	-		-	47,770
Loans and advances to customers	1,305,483	-		-	1,305,483
Investment securities available for sale	-	4,729		-	4,729
Investment securities held to maturity	-	-		21,207	21,207
Investments in leases	23,766				23,766
Other financial assets:					
- Other financial receivables	3,334	-		-	3,334
- Corporate shares	-	-	135	-	135
TOTAL FINANCIAL ASSETS	**1,380,353**	**4,729**	**135**	**21,207**	**1,762,170**
NON-FINANCIAL ASSETS	-	-		-	**189,578**
TOTAL ASSETS	-	-		-	**1,951,748**

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

37 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2008, the outstanding balances with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Associates**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 13 - 36 %)	54,301	1,696	-	-
Impairment provisions for loans and advances to customers at 31 December	(29,585)	(52)	-	-
Loans and advances from banks and credit institutions	469			
Customer accounts (contractual interest rate: 0 - 15 %)	2,894	1,801	4,551	147
Subordinated debt (contractual interest rate: 8 - 11.3 %)	41,672	-	-	-

Loans to significant shareholders have been rescheduled in November 2008 for another twelve months with interest rate of 13 - 36 %.

The income and expense items with related parties for the year 2008 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Associates**	**Other related parties**
Interest income	4,167	209	2	2
Interest expense	3,625	90	209	1
Provision for loan impairment	29,530	24	-	(8)
Gains less losses from trading in foreign currencies	38	(19)	-	-
Fee and commission income	18	7	19	7
Administrative and other operating expenses	1,952	3,256	-	103

At 31 December 2008, other rights and obligations with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Associates**	**Other related parties**
Guarantees issued by the Group at the year end	-	-	233	267
Other commitments	160	43	-	-

Aggregate amounts lent to and repaid by related parties during 2008 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Associates**	**Other related parties**
Amounts lent to related parties during the period	67,437	902	1,500	-
Amounts repaid by related parties during the period	15,205	253	1,500	298

37 Related Party Transactions (Continued)

At 31 December 2007, the outstanding balances with related parties were as follows:

In thousands of GEL	**Significant share-holders**	**Key management personnel**	**Associates**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 12 - 24 %)	2,069	1,047	-	298
Impairment provisions for loans and advances to customers at 31 December	(55)	(28)	-	(8)
Loans and advances from banks and credit institutions	1,343	-	-	-
Customer accounts (contractual interest rate: 0 - 15 %)	2,883	698	2,204	79
Subordinated debt (contractual interest rate: 9 - 11.5 %)	23,268	-	-	-

The income and expense items with related parties for the year 2007 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Associates**	**Other related parties**
Interest income	183	107	12	683
Interest expense	2,970	46	154	17
Provision for loan impairment	8	14	(1)	(2)
Fee and commission income	17	6	16	18
Other operating income	1	-	-	53
Administrative and other operating expenses	1,522	1,971	-	41

At 31 December 2007, other rights and obligations with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Associates**	**Other related parties**
Guarantees issued by the Group at the year end	-	-	130	255
Other commitments	119	122	-	1

Aggregate amounts lent to and repaid by related parties during 2007 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Associates**	**Other related parties**
Amounts lent to related parties during the period	1,181	742	-	298
Amounts repaid by related parties during the period	735	63	66	423

Key management compensation is presented below:

	2008		**2007**	
In thousands of GEL	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Salaries	3,186	-	2,195	2,294
Equity-settled share-based compensation	617	-	1,075	-
Total	**3,803**	**-**	**3,270**	**2,294**

38 Business Combinations

On 31 March 2008 the Group acquired 75% of the share capital of LLC TBC Kredit. The acquired subsidiary contributed revenue of GEL 5,455 thousand and profit of GEL 95 thousand to the Group for the period from the date of acquisition to 31 December 2008.

The consideration paid by the Group was based on results of an internal appraisal, of the acquiree's business taken as a whole. However, in accordance with IFRS 3 "Business Combinations", the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. These two different approaches can lead to differences; and, as set out in the table below, recognition of goodwill

The details of the assets and liabilities acquired and goodwill arising are as follows:

In thousands of GEL	**Note**	**IFRS carrying amount immediately before business combination**	**Attributed fair value**
Cash and cash equivalents		12,321	12,321
Loans and advances to customers		16,768	16,768
Other assets		561	561
Amounts owed to credit institutions		(14,876)	(14,876)
Other liabilities		(18)	(18)
Fair value of net assets of subsidiary			**14,756**
Less: minority interest			(3,689)
Fair value of acquired interest in net assets of subsidiary			**11,067**
Goodwill arising from the acquisition	16		1,262
Total purchase consideration			**12,329**
Less: cash and cash equivalents of subsidiary acquired			12,321
Outflow of cash and cash equivalents on acquisition			**8**

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined costs savings expected to arise. The purchase consideration comprises cash and cash equivalents paid of GEL 12,329 thousand.

39 Events after the Balance Sheet Date

Repayment of borrowings. Subsequent to year end, the Group repaid borrowings amounted to GEL 339,186 thousand, of which GEL 150,030 was repaid to one OECD lender in two tranches (February and March 2009) with GEL 7,229 thousand discount for early redemption.

Package financing from IFIs. On 14 April 2009, the Group received an approval from the international financial institutions, EBRD, FMO, IFC and DEG to obtain a long-term financing package in the amount of approximately GEL 230,000 thousand to be disbursed in April-May 2009 which consists of the following elements:

Share capital contribution:	GEL 66,000 thousand;
Subordinated loans:	GEL 73,348 thousand with maturity of over 5 years;
Senior loan facility:	GEL 88,581 thousand with maturity of over 5 years.

As at 8 May 2009, the Group has received GEL 53,868 thousand out of the share capital contribution and GEL 73,348 thousand out of the subordinated loans to cover its short-term liquidity needs.

Above-mentioned financing package includes new framework agreement, which replaces previously breached financial covenants with new financial covenants. At 1 May 2009, the Bank became compliant with new financial covenants, and accordingly reclassified long-term borrowings of GEL 187,360 thousand from current to non-current in accordance with their original contractual maturities. Refer to Notes 21 and 22.