TBC BANK GROUP

International Financial Reporting Standards Consolidated Financial Statements and Auditors' Report

31 December 2009

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of TBC Bank:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

30 April 2010
Tbilisi, Georgia

In thousands of GEL	Notes	31 December 2009	31 December 2008
ASSETS			
Cash and cash equivalents	7	332,848	355,746
Due from other banks	8	37,249	47,770
Loans and advances to customers	9	988,428	1,288,042
Investment securities available for sale	10	3,619	4,729
Current income tax prepayment		2,193	3,922
Investment securities held to maturity	11	115,496	21,207
Other financial assets	12	7,009	4,284
Investments in leases	13	14,090	23,766
Other assets	14	71,876	14,899
Premises and equipment	15	148,291	160,502
Intangible assets	15	5,178	5,439
Investment property	16	9,785	-
Goodwill	17	1,958	2,020
TOTAL ASSETS		**1,738,020**	**1,932,326**
LIABILITIES			
Due to other banks	18	27,366	29,510
Customer accounts	19	991,172	844,822
Deferred income tax liability	32	1,369	1,441
Provisions for liabilities and charges	20	5,289	5,324
Other financial liabilities	21	5,725	5,794
Other liabilities	22	6,602	3,684
Other borrowed funds	23	223,401	708,443
Subordinated debt	24	150,353	75,819
TOTAL LIABILITIES		**1,411,277**	**1,674,837**
EQUITY			
Share capital	25	15,000	11,700
Additional paid-in capital	25	201,723	138,748
Retained earnings		71,920	69,089
Other reserves	27	32,806	32,787
Net assets attributable to the Bank's equity holders		**321,449**	**252,324**
Minority interest		**5,294**	**5,165**
TOTAL EQUITY		**326,743**	**257,489**
TOTAL LIABILITIES AND EQUITY		**1,738,020**	**1,932,326**

Approved for issue and signed on behalf of the Board of Directors on 30 April 2010

Vakhtang Butskhrikidze
Chief Executive Officer

Vano Baliashvili
Deputy Chief Executive Officer

In thousands of GEL	Notes	2009	2008
Interest income	28	264,934	295,523
Interest expense	28	(102,692)	(122,810)
Net interest income		**162,242**	**172,713**
Provision for loan impairment	9	(94,055)	(195,592)
Net interest income / (net interest expense) after provision for loan impairment		**68,187**	**(22,879)**
Fee and commission income	29	26,211	32,407
Fee and commission expense	29	(9,027)	(5,060)
Gains less losses from trading in foreign currencies		17,733	26,201
Foreign exchange translation gains less losses		334	4,114
Losses on initial recognition of assets at rates below market	9	(3,365)	-
Impairment of investment securities available for sale	10	(257)	(270)
Gains from disposal of investment securities available for sale	10	7,920	6,319
Recovery of /(provision for) credit related commitments	20	35	(4,226)
Recovery of /(provision for) impairment of investments in lease	13	445	(2,202)
Recovery of / (provision for) other transactions		2,493	(665)
Other operating income	30	6,800	6,028
Administrative and other operating expenses	31	(113,553)	(107,017)
Profit / (loss) before tax		**3,956**	**(67,250)**
Income tax (expense) / credit	32	(996)	9,683
Profit / (loss) for the year		**2,960**	**(57,567)**
Other comprehensive income:			
Available-for-sale investments:			
- Gains less losses arising during the year	10	1,072	7,889
- Reclassification adjustments for gains less losses included in profit or loss		(788)	(6,319)
Revaluation of premises and equipment		-	(7,554)
Exchange differences on translation to presentation currency		(224)	3,276
Income tax recorded directly in other comprehensive income		(41)	947
Other comprehensive income for the year		**19**	**(1,761)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,979**	**(59,328)**
Profit/(loss) is attributable to:			
- Owners of the Bank		2,831	(57,634)
- Minority interest		129	67
Profit/(loss) for the year		**2,960**	**(57,567)**
Total comprehensive income is attributable to:			
- Owners of the Bank		2,850	(60,232)
- Minority interest		129	904
Total comprehensive income for the year		**2,979**	**(59,328)**

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		
Balance at 1 January 2008		**11,700**	**138,131**	**35,385**	**126,723**	**311,939**	**572**	**312,511**
Total comprehensive income for 2008		-	-	(2,598)	(57,634)	(60,232)	904	(59,328)
Share based payments	26	-	617	-	-	617	-	617
Business combinations		-	-	-	-	-	3,689	3,689
Balance at 31 December 2008		**11,700**	**138,748**	**32,787**	**69,089**	**252,324**	**5,165**	**257,489**
Total comprehensive income for 2009		-	-	19	2,831	2,850	129	2,979
Share issue	25	3,300	62,700	-	-	66,000	-	66,000
Share based payment	26	-	275	-	-	275	-	275
		-	-					
Balance at 31 December 2009		**15,000**	**201,723**	**32,806**	**71,920**	**321,449**	**5,294**	**326,743**

In thousands of GEL	Note	2009	2008
Cash flows from operating activities			
Interest received		280,588	281,221
Interest paid		(98,761)	(119,964)
Fees and commissions received		26,211	32,411
Fees and commissions paid		(9,027)	(5,059)
Income received from trading in foreign currencies		17,735	26,201
Other operating income received		5,724	9,725
Staff costs paid		(48,870)	(50,072)
Administrative and other operating expenses paid		(46,365)	(36,506)
Income tax refunded		462	1,337
Cash flows from operating activities before changes in operating assets and liabilities		**127,697**	**139,294**
Changes in operating assets and liabilities			
Net decrease in due from other banks		10,597	33,224
Net decrease / (increase) in loans and advances to customers		195,631	(346,251)
Net decrease / (increase) in investment in lease		9,676	(6,389)
Net (increase)/decrease in other financial assets		(5,354)	12,943
Net increase in other assets		(66,077)	(2,677)
Net decrease / (increase) in due to other banks		3,418	(62,846)
Net increase in customer accounts		140,616	60,328
Net decrease / (increase) in other liabilities		3,021	(3,351)
Net cash from / (used in) operating activities		**419,225**	**(175,725)**
Cash flows from investing activities			
Acquisition of investment securities available for sale	10	(198)	(110)
Proceeds from disposal of investment securities available for sale	10	8,672	8,219
Proceeds from disposal of associate		1,773	-
Acquisition of investment securities held to maturity	11	(215,196)	(190,059)
Proceeds from redemption of investment securities held to maturity	11	120,906	283,454
Acquisition of premises, equipment and intangible assets	15	(10,419)	(44,067)
Proceeds from disposal of premises, equipment and intangible assets	15	-	2,529
Cash acquired in acquisition		-	12,320
Net cash (used in) / from investing activities		**(94,462)**	**72,286**
Cash flows from financing activities			
Proceeds from other borrowed funds	21	12,671	889,722
Redemption of other borrowed funds	21	(497,713)	(626,401)
Proceeds from subordinated debt	22	70,774	19,234
Issue of ordinary shares		66,275	-
Net cash (used in) / from financing activities		**(347,993)**	**282,555**
Effect of exchange rate changes on cash and cash equivalents		**332**	**7,390**
Net (decrease) / increase in cash and cash equivalents		**(22,898)**	**186,506**
Cash and cash equivalents at the beginning of the year		355,746	**169,240**
Cash and cash equivalents at the end of the year	7	**332,848**	**355,746**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 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 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%. In 2009 the Group issued new shares and as a result as at 31 December 2009 there is no ultimate controlling party. At 31 December 2009, shareholders structure by ownership interest is as following:

Shareholders	**31 December 2009 Ownership interest,%**	**31 December 2008 Ownership interest,%**
Local individuals	35%	78%
International Finance Corporation	20%	12%
European Bank for Reconstruction and Development	20%	-
Deutsche Investitions und Entwicklungsgesellschaft MBH	12%	10%
JPMorgan Chase Bank	5%	-
Ashmore Cayman SPC	5%	-
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	3%	-
Total	**100%**	**100%**

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 (2008: 13) branches and 30 (2008: 43) service centres within Georgia. As at 31 December 2009, the Group had 2,293 employees (2008: 2,925 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 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.

Despite strong economic growth in recent years, the financial situation in the Georgian market has significantly deteriorated since 2008. There was economic downturn in 2009 with 4% decrease in GDP. This downturn would have been greater without the USD 4.5 billion pledged by international donors. The annual inflation rate has been kept relatively low at 3%, compared to 5.5% in 2008 and 11% in 2007. Moreover, in September 2009 Fitch Ratings affirmed Georgia's long-term foreign and local currency Issuer Default Ratings at 'B+', and the Country Ceiling was upgraded from 'B+' to 'BB-' with stable outlook, at the same time Standard and Poor's affirmed long-term and short-term credit ratings on the Government of Georgia at 'B/B' level – the ratings that Georgia had prior to armed conflict 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.

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The market in Georgia for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period. Under IFRS, impairment losses on financial assets expected as a result of future events, no matter how likely, cannot be recognised until such events arise. The amount of provision for impaired loans is based on management's appraisals of these assets at the end of the reporting period after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Management is unable to reliably determine the probability of 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 development 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 further details.

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.

3 Summary of Significant Accounting Policies (Continued)

The consolidated financial statements include the following principal subsidiaries:

Subsidiary	31 December 2009 Ownership / voting,%	31 December 2008 Ownership / voting,%	Country	Date of incorporation or acquisition	Industry
JSC TBC Leasing	89.53%	89.53%	Georgia	2003	Leasing
TBC Kredit LLC	75.00%	75.00%	Azerbaijan	2008	Non-banking credit institution
TBC Broker LLC	100.00%	100.00%	Georgia	1999	Brokerage
JSC United Financial Corporation	93.32%	90.81%	Georgia	1997	Card processing
Banking System Service Company LLC	100.00%	-	Georgia	2009	Service

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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, investment property or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed assets are recorded at the lower of cost or net realisable value.

3 Summary of Significant Accounting Policies (Continued)

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.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured using the cost model in IAS 16.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

3 Summary of Significant Accounting Policies (Continued)

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in profit or loss for the year to the extent that it reverses a previous impairment loss, with any remaining increase credited directly to other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognised in other comprehensive income, with any remaining decrease charged to profit or loss for the year.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

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 1.6858 (2008: USD 1 = GEL 1.667); EUR 1 = GEL 2.4195 (2008: EUR 1 = GEL 2. 3648).

3 Summary of Significant Accounting Policies (Continued)

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.

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.

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**
Other financial liabilities	3,004	2,790	5,794
Other liabilities	6,474	(2,790)	3,684

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 and analysed the impact of the recent financial crisis on future operations of the Group.

As set out in Note 32, at 31 December 2009 the Group has a negative cumulative liquidity gap of GEL 115,085 thousand (2008: negative GEL 448,190 thousand) in the period up to 12 months.

In 2009, the management of the Bank obtained new debt and equity financing from international financial institutions which consisted 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

At 31 December 2008, the Bank was not in compliance with certain externally imposed capital requirements, but the Bank was able to obtain necessary waivers from NBG in 2009. However, based on new agreements and subsequent to above capital increase the Bank was back in compliance with all externally imposed ratios as at 31 December 2009. Other management plans executed in 2009 included recovery actions, cost reduction and reducing lending activity.

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

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.

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 (JSC GRDC and other investments). The investments are carried at cost of GEL 1,766 thousand (2008: GEL 3,159 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.

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 8,946 thousand (2008: GEL 8,364 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 5,460 thousand (2008: GEL 6,916 thousand), respectively.

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Assumptions to determine amount of provisions. The Group is subject to the possibility of various loss contingencies arsing in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required.

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 35.

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 31 December 2009 and 2008, there were no loans and advances at other than market conditions. Terms and conditions of related party balances are disclosed in Note 37.

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

5 Adoption of New or Revised Standards and Interpretations

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

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

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

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

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

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

5 Adoption of New or Revised Standards and Interpretations (Continued)

- ***IAS 40, Investment Property (and consequential amendments to IAS 16).*** Property that is under construction or development for future use as investment property is brought within the scope of the revised IAS 40. Where the fair value model is applied, such property is measured at fair value. Where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which the fair value becomes reliably measurable. The Group applies the amendment prospectively from 1 January 2009.

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

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

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

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

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

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

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

5 Adoption of New or Revised Standards and Interpretations (Continued)

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

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

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

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 2010 or later periods and which the Group has not early adopted:

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

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

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amended standard to have a material effect on its financial statements.

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 is currently assessing the impact of the amended standard on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to re-measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its 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). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

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

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

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

6 New Accounting Pronouncements (Continued)

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

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

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group. Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

7 Cash and Cash Equivalents

In thousands of GEL	**2009**	**2008**
Cash on hand	83,793	82,990
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	51,122	35,414
Correspondent accounts and overnight placements with other banks	122,587	82,083
Placements with other banks with original maturities of less than three months	75,346	155,259
Total cash and cash equivalents	**332,848**	**355,746**

Interest rate analysis of cash and cash equivalents is disclosed in Note 33. The information on related party balances is disclosed in Note 39.

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

In thousands of GEL	**2009**	**2008**
AA	3,144	-
AA-	7,582	-
A+	96,163	55,532
A	14,325	-
A-	505	2,992
Not Rated	868	23,559
Total	**122,587**	**82,083**

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

In thousands of GEL	**2009**	**2008**
A+	24,195	94,769
A	24,195	-
A-		18,337
BBB	5,057	
BB		16,671
B		13,341
B-	4,935	
D		3,335
Not Rated	16,964	8,806
Total	**75,346**	**155,259**

Balances with other banks without rating represent placements with top 10 Georgian Banks.

8 Due from Other Banks

In thousands of GEL	**2009**	**2008**
Short-term placements with other banks with original maturities of more than three months	2,110	14,591
Mandatory cash balances with the National Bank of Georgia	35,139	33,179
Total due from other banks	**37,249**	**47,770**

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2009 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			
- National Bank of Georgia	-	35,139	35,139
- Large OECD Banks	2,110	-	2,110
Total current and not impaired	**2,110**	**35,139**	**37,249**

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			
- National Bank of Georgia	-	33,179	33,179
- Top ten Georgian banks	3,095	-	3,095
- Large OECD Banks	11,496	-	11,496
Total current and not impaired	**14,591**	**33,179**	**47,770**
Total due from other banks	**14,591**	**33,179**	**47,770**

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

In thousands of GEL	**2009**	**2008**
A+	1,011	10,428
A	51	-
BBB	-	3,095
BBB+	543	-
Not Rated	505	1,068
Total due from large OECD banks	**2,110**	**14,591**

At 31 December 2009 the Group had balances with one counterparty bank (2008: five banks) with aggregated amounts above GEL 1,000 thousand. The total aggregate amount of these deposits was GEL 35,139 thousand (2008: GEL 44,548 thousand) or 94% of the total amount due from other banks (2008: 92%). Refer to Note 37 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

9 Loans and Advances to Customers

In thousands of GEL	**2009**	**2008**
Corporate loans	603,680	770,161
Consumer loans	208,633	258,597
Mortgage loans	170,423	199,096
Small and micro loans	152,728	175,936
Others	33,913	51,726
Less: Provision for loan impairment	(180,949)	(167,474)
Total loans and advances to customers	**988,428**	**1,288,042**

During 2009 a loss on initial recognition of loans at rates below market in amount of GEL 3,365 thousand (2008: Nil) has been recorded in profit or loss for the year.

Movements in the provision for loan impairment during 2009 are as follows:

In thousands of GEL	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Small and Micro loans**	**Other**	**Total**
Provision for loan impairment at 1 January 2009	**142,267**	**21,995**	**2,303**	**909**	**-**	**167,474**
Provision for impairment during the year	52,876	27,103	4,039	7,935	102	94,055
Amounts written off during the year as uncollectible	(50,727)	(23,917)	(2,431)	(3,505)	-	(80,580)
Provision for loan impairment at 31 December 2009	**146,416**	**25,181**	**3,911**	**5,339**	**102**	**180,949**

Loans and advances to customers written off in 2009 included loans to customers in the amount of GEL 11,803 thousand issued during 2009 and GEL 78,505 thousand issued in prior years.

For terms of loans and advances to related parties, impairment provisions made against those loans and amounts written off during the year refer to Note 39.

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**

9 Loans and Advances to Customers (Continued)

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

	2009		2008	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individuals	432,311	37%	505,610	35%
Trade and service	317,923	27%	439,556	30%
Construction	141,844	12%	196,638	13%
Manufacturing	103,727	9%	116,558	8%
Gold pawn loans	33,913	3%	28,604	2%
Transport and communication	33,300	3%	42,139	3%
Agricultural	27,719	2%	28,980	2%
Energy	28,707	2%	23,088	2%
Other	49,933	4%	74,343	5%
Total loans and advances to customers (before impairment)	**1,169,377**	**100%**	**1,455,516**	**100%**

At 31 December 2009 the Group had 31 borrowers (2008: 44 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 317,876 thousand (2008: GEL 493,945 thousand) or 27% of the gross loan portfolio (2008: 34%).

Information about collateral at 31 December 2009 is as follows:

In thousands of GEL	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Small and micro loans**	**Others**	**Total**
Unsecured loans	42,400	106,382	5,468	3,932	-	**158,182**
Loans collateralised by:						
- real estate	500,139	28,793	164,128	143,291	-	**836,351**
- inventory and equipment	22,676	51,029	741	1,793	-	**76,239**
- jewellery					33,913	**33,913**
- cash deposits	16,672	21,802	67	3,492	-	**42,033**
- other assets	21,785	626	19	229	-	**22,659**
Total loans and advances to customers	**603,672**	**208,632**	**170,423**	**152,737**	**33,913**	**1,169,377**

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**
- jewellery	-	-	-	-	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**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2009 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	48,282	11,043	51,426	32,118	-	142,869
- Borrowers with credit history over two years – renegotiated in 2009	11,467	230	2,688	1,900	-	16,285
- new borrowers – at original terms	234,185	52,655	73,925	93,800	33,913	488,478
- new borrowers – renegotiated in 2009	1,980	1,136	2,074	2,462	-	7,652
Total current and not impaired	**295,914**	**65,064**	**130,113**	**130,280**	**33,913**	**655,284**
Past due but not impaired						
- less than 30 days overdue	253	1,596	1,909	3,628	-	7,386
- 30 to 90 days overdue	1,949	1,745	2,352	2,392	-	8,438
- 90 to 180 days overdue	916	2,106	918	1,104	-	5,044
- 180 – 360 days overdue	1,751	1,178	393	984	-	4,306
Total past due but not impaired	**4,869**	**6,625**	**5,572**	**8,108**	**-**	**25,174**
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	227,734	-	-	2,261	-	229,995
- 30 to 90 days overdue	2,605	-	-	-	-	2,605
- 90 to 180 days overdue	449	-	-	-	-	449
- 180 – 360 days overdue	4,997	-	-	-	-	4,997
Total individually impaired loans (gross)	**235,785**	**-**	**-**	**2,261**	**-**	**238,046**
Gross carrying value of other loans	**67,112**	**136,944**	**34,738**	**12,079**	**-**	**250,873**
Less impairment provisions	**146,416**	**25,181**	**3,911**	**5,339**	**102**	**180,949**
Total loans and advances to customers	**457,264**	**183,452**	**166,512**	**147,389**	**33,811**	**988,428**

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**

At 31 December 2009, interest accrual on individually impaired loans was GEL 14,135 thousand (2008: GEL 10,766 thousand).

The primary factors that the Group considers whether a loan is impaired are its overdue status, financial position of a borrower 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 2009 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	4,593	2,175	5,572	7,900	20,240
- inventory and equipment	275	4,450	-	134	4,859
- cash deposits	-	-	-	75	75
Fair value of collateral - individually impaired loans					
- real estate	207,033	-	-	2,261	209,294
- inventory and equipment	7,732	-	-	-	7,732
- cash deposits	812	-	-	-	812
- other assets	8,376	-	-	-	8,376
Total	**228,821**	**6,625**	**5,572**	**10,369**	**251,386**

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**

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 37 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 33. Information on related party balances is disclosed in Note 39.

10 Investment Securities Available for Sale

In thousands of GEL	2009	2008
Corporate shares – unquoted	1,766	3,159
Corporate shares – quoted (VISA Inc)	1,853	1,570
Total investment securities available for sale	**3,619**	**4,729**

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

In thousands of GEL	2009	2008
Carrying amount at 1 January	**4,729**	**5,219**
Purchases	198	110
Revaluation of investment securities available for sale	1,072	7,889
Disposals of investment securities available for sale	(2,123)	(8,219)
Impairment of investment securities available for sale	(257)	(270)
Carrying amount at 31 December	**3,619**	**4,729**

At 31 December 2009 the principal equity investment securities available for sale are:

Name	Nature of business	Country of registration	Carrying value 2009	Carrying value 2008
JSC GRDC	Property development	Netherlands Antilles	1,502	1,502
Visa Inc.	Card Processing	USA	1,853	1,570
LLC Caucasus Online	Internet provider	Georgia	-	1,332
Other			264	325
Total			**3,619**	**4,729**

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 1,766 thousand (2008: GEL 3,159 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 2009, the Group sold its investment in shares of Caucasus Online LLC, previously carried at cost of GEL 1,332 thousand and recognised a gain of GEL 7,132 thousand on the sale in the statement of comprehensive income. Also, in 2009 the Group sold some shares in Visa Inc. and recognised a gain of GEL 788 thousand in the statement of comprehensive income.

11 Investment Securities Held to Maturity

In thousands of GEL	2009	2008
Certificates of Deposit of National Bank of Georgia	69,680	21,151
Ministry of Finance Treasury Bills	45,816	-
Corporate Bonds	-	56
Total investment securities held to maturity	**115,496**	**21,207**

11 Investment Securities Held to Maturity (Continued)

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

In thousands of GEL	2009	2008
Gross amount at 1 January	**21,207**	**114,596**
Additions	215,196	190,059
Redemption at maturity	(120,906)	(283,454)
Interest income accrual (Note 28)	15,442-	4,661
Interest income received	(15,443)	(4,655)
Gross amount at 31 December	**115,496**	**21,207**

Refer to Note 37 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 33. Information on related party investment securities held to maturity is disclosed in Note 39.

12 Other Financial Assets

In thousands of GEL	2009	2008
Other financial receivables	3,870	2,835
Receivables on guarantees	2,604	-
Debtors from foreclosed assets	1,109	-
Debtors from investing activities	782	-
Debtors from sale of available for sale instruments	589	-
Fee receivable on guarantees	435	773
Trading securities	82	136
Other	220	540
Less: Provision for impairment	(2,682)	-
Total other financial assets	**7,009**	**4,284**

Movements in the provision for impairment of other financial assets during 2009 are as follows:

In thousands of GEL	Receivables on guarantees	Other	Total
Provision for impairment at 1 January 2009	**-**	**-**	**-**
Provision for impairment during the year	2,604	78	2,682
Provision for impairment at 31 December 2009	**2,604**	**78**	**2,682**

In 2009 the Group recovered previously written off financial assets of GEL 5,097 thousand and credited to the line recovery of provision for other transaction in the statement of comprehensive income (2008: Nil).

12 Other Financial Assets (Continued)

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

In thousands of GEL	2009	2008
Current and not impaired		
- Receivables on credit card services	1,257	807
- Fee receivable on guarantees	435	773
- Trading securities	82	136
- Receivables on money transfer services	9	564
- Other receivables	5,304	2,004
Total current and not impaired	**7,087**	**4,284**
- Receivables on guarantees - impaired	2,604	-
Less impairment provision	**(2,682)**	**-**
Total other financial assets	**7,009**	**4,284**

13 Investments in Finance Lease

Investments in finance lease of GEL 14,090 thousand (2008: GEL 23,766 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 2009	**9,331**	**11,027**	**20,358**
Unearned finance income	(2,855)	(2,484)	**(5,339)**
Impairment loss provision	(41)	(888)	**(929)**
Present value of lease payments receivable at 31 December 2009	**6,435**	**7,655**	**14,090**
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**

At 31 December 2009 the estimated fair value of financial lease receivables was GEL 14,090 thousand (2008: GEL 23,766 thousand). Refer to Note 37.

14 Other Assets

In thousands of GEL	**2009**	**2008**
Inventories of repossessed collateral	63,321	6,145
Prepaid taxes other than income tax	2,096	379
Prepayments for other assets	1,663	793
Inventories	1,446	1,522
Prepayments for construction in progress	153	2,990
Prepayments for purchase of leasing assets	54	2,261
Assets purchased for leasing purposes	462	677
Other	2,681	132
Total other assets	**71,876**	**14,899**

Inventories of repossessed collateral represents real estate assets and equipment acquired by the Group in settlement of overdue loans, other than those classified as investment property. 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. Such assets were initially recognised at fair value and re-measured at lower of cost of net realisable value.

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 2008		61,753	35,932	33,841	**131,526**	3,763	**135,289**
Accumulated depreciation/amortization		(2,954)	(10,402)	-	**(13,356)**	(1,564)	**(14,920)**
Carrying amount at 1 January 2008		**58,799**	**25,530**	**33,841**	**118,170**	**2,199**	**120,369**
Acquisitions through business combinations		-	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/amortisation charge	30	(2,559)	(10,303)	-	**(12,862)**	(1,025)	**(13,887)**
Decrease in value charged to profit or loss	30	(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/amortisation		(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**
Additions		811	7,230	2,691	**10,732**	1,446	**12,178**
Transfers		11,118	-	(11,118)	**-**	-	**-**
Disposals		(3,892)	(2,637)	(1,517)	**(8,046)**	(166)	**(8,212)**
Depreciation/amortisation charge	30	(3,688)	(12,965)	-	**(16,653)**	(1,630)	**(18,283)**
Elimination of accumulated depreciation on disposals		312	1,444	-	**1,756**	89	**1,845**
Carrying amount at 31 December 2009		**90,467**	**37,812**	**20,012**	**148,291**	**5,178**	**153,469**
Cost or valuation at 31 December 2009		102,661	70,080	21,937	**194,678**	9,308	**203,986**
Accumulated depreciation/amortisation including accumulated impairment loss		(12,194)	(32,268)	(1,925)	**(46,387)**	(4,130)	**(50,517)**
Carrying amount at 31 December 2009		**90,467**	**37,812**	**20,012**	**148,291**	**5,178**	**153,469**

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.

At 31 December 2009 the carrying amount of premises would have been GEL 90,467 thousand (2008: GEL 113,329 thousand) had the assets been carried at cost less depreciation. At 31 December 2009 the carrying amount of construction in progress would have been GEL 20,013 thousand (2008: GEL 26,283 thousand) had the assets been carried at cost less depreciation.

16 Investment Properties

In thousands of GEL	**2009**	**2008**
Transfer from property, plant and equipment	4,651	-
Repossessed assets from foreclosed loans	5,149	-
Less accumulated depreciation	(15)	-
Investment properties as at 31 December	**9,785**	**-**

At 31 December 2009, investment properties comprised of four lots of land and six buildings located in Tbilisi and other regions of Georgia.

17 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In thousands of GEL	**Note**	**2009**	**2008**
Carrying amount at 1 January		**2,020**	**758**
Acquisition of subsidiary		-	1,262
Impairment loss	31	(62)	-
Carrying amount at 31 December		**1,958**	**2,020**
Gross book value		2,499	2,499
Accumulated impairment losses		(541)	(479)
Carrying amount at 31 December		**1,958**	**2,020**

17 Goodwill (Continued)

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	**2009**	**2008**
JSC United Financial Corporation	696	758
LLC TBC Kredit	1,262	1,262
Total carrying amount of goodwill	**1,958**	**2,020**

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.

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 after-tax and reflect specific risks relating to the relevant CGUs. If the revised estimated after-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10% higher than Management's estimates, the Group would need to reduce the carrying value of goodwill by GEL 218 thousand. Had this 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. The CGUs' carrying amount would equal to value in use at a discount rate of 17.21% p.a.

The impairment charge arose in JSC United Financial Corporation.

If the revised estimated after-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 10% 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 56,572 thousand. The CGUs' carrying amount would equal to value in use at a discount rate of 42.83% p.a.

18 Due to Other Banks

In thousands of GEL	**2009**	**2008**
Correspondent accounts and overnight placements of other banks	4,939	11,182
Term placements of banks and financial institutions	22,427	18,328
Total due to other banks	**27,366**	**29,510**

Refer to Note 37 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 33. Information on related party balances is disclosed in Note 39.

19 Customer Accounts

In thousands of GEL	2009	2008
State and public organisations		
- Current/settlement accounts	24,998	18,980
- Term deposits	7,708	6,553
Other legal entities		
- Current/settlement accounts	231,373	268,876
- Term deposits	56,465	39,876
Individuals		
- Current/demand accounts	259,114	191,419
- Term deposits	411,514	319,118
Total customer accounts	**991,172**	**844,822**

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2009		2008	
In thousands of GEL	Amount	%	Amount	%
Individuals	670,628	68%	510,538	60%
Trade and services	143,017	14%	162,510	19%
Construction	27,940	3%	22,428	3%
Transport and communication	9,999	1%	8,766	1%
Energy	4,448	0%	19,732	2%
Government	3,864	0%	250	0%
Mining and natural resource processing	1,375	0%	7,084	1%
Agriculture	98	0%	197	0%
Other	129,803	13%	113,317	13%
Total customer accounts	**991,172**	**100%**	**844,822**	**100%**

At 31 December 2009 the Group had 11 customers (2008: 26 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 65,157 thousand (2008: GEL 173,360 thousand) or 7% (2008: 21%) of total customer accounts.

At 31 December 2009 included in customer accounts are deposits of GEL 2,435 thousand and GEL 60,685 thousand (2008: GEL 5,807 thousand and GEL 44,069 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 35.

Refer to Note 37 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

20 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 1 January 2008	**5,324**	**-**	**5,324**
Additions / (recovery) charged to profit or loss	(1,535)	1,500	**(35)**
Carrying amount at 31 December 2009	**3,789**	**1,500**	**5,289**

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 2009 is expected to be utilised by March 2011.

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

21 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of GEL	2009	2008
Trade payables	4,055	2,790
Debit or credit card payables	928	1,614
Security deposits for finance lease	525	1,390
Other accrued liabilities	217	-
Total other financial liabilities	**5,725**	**5,794**

Refer to Note 37 for disclosure of the fair value of other financial liabilities.

22 Other Liabilities

Other financial liabilities comprise the following:

In thousands of GEL	2009	2008
Taxes payable other than on income	3,376	2,647
Accrued employee benefit costs	2,710	586
Other	516	451
Total other liabilities	**6,602**	**3,684**

23 Other Borrowed Funds

At 31 December 2009, other borrowed funds comprised following:

In thousands of GEL	Outstanding amount in original currency GEL	Outstanding amount in original currency USD	Outstanding amount in GEL
International financial institutions		46,626	78,601
Foreign banks and financial institutions	8,742	79,368	142,540
Other financial institutions	-	1,340	2,260
Total	**8,742**	**127,334**	**223,401**

At 31 December 2008, other borrowed funds comprised of:

In thousands of GEL	Outstanding amount in original currency GEL	Outstanding amount in original currency USD	Outstanding amount in GEL
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**

Refer to Note 37 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 33. Information on related party balances is disclosed in Note 39.

24 Subordinated Debt

At 31 December 2009, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Interest rate per annum	Outstanding amount in original currency USD	Outstanding amount in GEL
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	30-May-07	15-Apr-14	Libor+6.25%	20,168	34,000
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	Libor+10%	18,594	31,345
International Financial Corporation	23-Apr-09	12-Nov-18	Libor+10%	18,543	31,260
Deutsche Investitions und Entwicklungsgesellschaft MBH	24-Feb-06	15-Feb-12	11%	10,489	17,683
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jun-18	Libor+6.5%	10,358	17,462
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	Libor+10%	7,035	11,860
International Financial Corporation	16-Dec-04	15-Dec-11	Libor+4.5%	4,000	6,743
Total subordinated debt				**89,187**	**150,353**

24 Subordinated debt (Continued)

At 31 December 2008, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Interest rate per annum	Outstanding amount in original currency USD	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**

Refer to Note 37 for the disclosure of the fair value of each class of amounts due to other banks. Information on related party balances is disclosed in Note 39.

25 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 2008	**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**
New shares issued	33,000	3,300	62,700	**66,000**
Share based payments	-	-	275	**275**
At 31 December 2009	**150,000**	**15,000**	**201,723**	**216,723**

During 2009, the Group issued 33,000 shares to its existing and new shareholders.

All ordinary shares have a nominal value of GEL 100 per share (2008: 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.

26 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	2009	2008
Cumulative number of share options granted	2,834	2,834
Number of options outstanding at the beginning of the year	1,133	1,133
Number of share options exercised	-	-
Number of options outstanding at the end of the year	1,133	1,133
Number of options exercisable at the end of the year	113	566
Value at grant date per share option (GEL)	2,420	2,420
Expense recognized as staff cost during the year	**273**	**617**

27 Other Reserves

In thousands of GEL	Revaluation reserve for Premises	Revaluation reserve for Available for sale securities	Cumulative currency translation reserve	Total other reserves
At 1 January 2008	**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**
Fair value of investments available for sale	-	1,072	-	1,072
Realised revaluation reserve	-	(788)	-	(788)
Currency translation	-	-	(224)	(224)
Income tax effects	-	(41)	-	(41)
At 31 December 2009	**29,013**	**1,578**	**2,215**	**33,806**

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.

28 Interest Income and Expense

In thousands of GEL	2009	2008
Interest income		
Loans and advances to customers	240,603	274,566
Investment securities held to maturity (Note 11)	15,442	4,661
Investments in leases	5,904	6,013
Due from other banks	2,983	10,273
Other	2	10
Total interest income	**264,934**	**295,523**
Interest expense		
Due to other banks	39,159	64,958
Term deposits of individuals	36,978	34,795
Current/settlement accounts	17,526	3,955
Term deposits of legal entities	5,769	11,024
Term placements of other banks	2,716	6,759
Correspondent accounts of other banks	122	1,319
Other	422	-
Total interest expense	**102,692**	**122,810**
Net interest income	**162,242**	**172,713**

29 Fee and Commission Income and Expense

In thousands of GEL	2009	2008
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Plastic card operations	10,145	10,449
- Settlement transactions	5,615	5,901
- Guarantees issued (Note 20)	5,603	8,278
- Cash transactions	3,392	4,120
- Foreign exchange operations	479	421
- Other	977	3,238
Total fee and commission income	**26,211**	**32,407**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Guarantees received	4,585	462
- Plastic card operations	2,279	2,143
- Settlement transactions	1,770	760
- Cash transactions	135	507
- Foreign exchange operations	12	65
- Communication services	-	468
- Other	246	655
Total fee and commission expense	**9,027**	**5,060**
Net fee and commission income	**17,184**	**27,347**

30 Other Operating Income

In thousands of GEL	2009	2008
Gain from sale of associate	1,658	
Administrative fee income from international financial institutions	1,291	1,216
Revenues from issuance of letters of credit	810	1,503
Revenues from non-credit related fines	800	-
Gain on disposal of premises and equipment	304	129
Gains from trading securities	77	-
Reimbursement from insurer	211	520
Gain from sale of inventory	-	2,121
Other	1,649	539
Total other operating income	**6,800**	**6,028**

31 Administrative and Other Operating Expenses

In thousands of GEL	Note	2009	2008
Staff costs		48,870	45,534
Depreciation and amortisation	15	18,283	13,887
Professional services		9,489	3,477
Occupancy and rent		7,101	7,103
Advertising and marketing services		7,099	8,161
Charity	39	4,007	736
Communications and supply		3,061	4,493
Insurance		1,753	1,587
Taxes other than on income		1,720	1,537
Security services		1,527	870
Transportation and vehicle maintenance		1,230	2,620
Stationery and other office expenses		955	2,261
Business trip expenses		311	734
Impairment of goodwill	17	62	-
Decrease in value of premises due to revaluation	15	-	5,255
Other		8,085	8,762
Total administrative and other operating expenses		**113,553**	**107,017**

32 Income Taxes

Income tax credit comprises the following:

In thousands of GEL	2009	2008
Current tax	1,109	1,715
Deferred tax	(113)	(11,398)
Income tax expense/(credit) for the year	**996**	**(9,683)**

The income tax rate applicable to the majority of the Group's income is 15% (2008: 15%). The income tax rate applicable to the majority of subsidiaries income ranges from 15% to 22% (2008: 15%).

32 Income Taxes (Continued)

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

In thousands of GEL	2009	2008
Profit / (loss) before tax	**3,956**	**(67,250)**
Theoretical tax charge / (credit) at statutory rate (2009: 15%; 2008: 15%)	593	(10,088)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	177	405
Unrecognized tax loss carry forwards	208	-
Effect of change in tax rate	18	-
Income tax expense/(credit) for the year	**996**	**(9,683)**

A deferred tax expense of GEL 41 thousand (2008: 235) has been recorded directly in other comprehensive income in respect of the fair valuation of investment securities available for sale. Refer to Notes 10 and 27.

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% (2008: 15%).

In thousands of GEL	31 December 2008	(Charged)/ credited to profit or loss	(Charged) / credited directly to other comprehensive income	31 December 2009
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(19,159)	933	-	(18,226)
Loan impairment provision	3,022	1,914	-	4,936
Fair valuation of investment securities available for sale	(235)	-	(41)	(276)
Tax loss carry forwards	16,354	(3,462)	-	12,892
Other assets	104	27	-	131
Investment in leases	-	78	-	78
Investment property	-	(614)	-	(614)
Other liabilities	(1,527)	1,237	-	(290)
Net deferred tax asset/(liability)	**(1,441)**	**113**	**(41)**	**(1,369)**
Recognised deferred tax asset	19,480			18,037
Recognised deferred tax liability	(20,921)			(19,406)
Net deferred tax asset/(liability)	**(1,441)**			**(1,369)**

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.

32 Income Taxes (Continued)

In thousands of GEL	31 December 2007	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other comprehensive income	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
Other liabilities	-	(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)**

33 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 statement of financial position For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 35.

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.

33 Financial Risk Management (Continued)

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.

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 it to be 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 2009				**At 31 December 2008**			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**
Georgian Lari	356,070	290,798	(12,039)	53,233	308,137	244,695	7,274	70,716
US Dollars	949,985	926,366	12,099	35,718	1,267,418	1,247,823	(6,688)	12,907
Euros	177,280	177,577	-	(297)	154,879	158,954	(709)	(4,784)
Other	15,404	3,276	-	12,128	12,618	1,374	-	11,244
Total	**1,498,739**	**1,398,017**	**60**	**100,782**	**1,743,052**	**1,652,846**	**(123)**	**90,083**

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 2009		**At 31 December 2008**	
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%	(3,571)	(3,035)	(1,291)	(1,097)
US Dollars weakening by 10%	3,571	3,035	1,291	1,097
Euro strengthening by 10%	(29)	(25)	(478)	(407)
Euro weakening by 10%	29	25	478	407
Other strengthening by10%	(1,219)	(1,036)	(1,124)	(956)
Other weakening by 10%	1,219	1,036	1,124	956

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

33 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 2009					
Total financial assets	480,958	311,212	154,944	551,625	1,498,739
Total financial liabilities	613,816	218,700	233,863	331,638	1,398,017
Net interest sensitivity gap at 31 December 2009	**1,094,774**	**529,912**	**388,807**	**883,263**	**2,896,756**
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**

At 31 December 2009, 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 3,301 thousand (2008: GEL 2,870 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 3,301 thousand (2008: GEL 2,870 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:

	2009				2008			
In % p.a.	**GEL**	**USD**	**Euro**	**Other**	**GEL**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	1%	3%	-	2%	2%	2%	3%	1%
Due from other banks	-	2%	2%	-	13%	4%	-	-
Loans and advances to customers	24%	17%	16%	12%	24%	17%	20%	-
Investment securities held to maturity	4%	-	-	-	12%	-	-	-
Liabilities								
Due to other banks	4%	4%	1%	-	5%	8%	2%	-
Customer accounts								
- current and settlement accounts	4%	6%	5%	2%	3%	3%	3%	-
- term deposits	11%	11%	11%	11%	12%	11%	10%	-
Other borrowed funds	6%	5%	-	-	14%	8%	-	-
Subordinated debt	-	10%	-	-	-	10%	-	-

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

33 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2009 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	161,907	169,818	1,123	332,848
Due from other banks	36,655	594	-	37,249
Loans and advances to customers	988,428	-	-	988,428
Investment securities available for sale	3,619	-	-	3,619
Investment securities held to maturity	115,496	-	-	115,496
Investments in leases	14,090	-	-	14,090
Other financial assets	7,009	-	-	7,009
Total financial assets	**1,327,204**	**170,412**	**1,123**	**1,498,739**
Non-financial assets	**239,281**	**-**	**-**	**239,281**
Total assets	**1,566485**	**170,412**	**1,123**	**1,738,020**
Liabilities				
Due to other banks	27,366	-	-	27,366
Customer accounts	991,172	-	-	991,172
Other borrowed funds	88,855	129,981	4,565	223,401
Other financial liabilities	5,725	-	-	5,725
Subordinated debt	-	150,353	-	150,353
Total financial liabilities	**1,113,118**	**280,333**	**4,565**	**1,398,017**
Non-financial liabilities	**13,260**	**-**	**-**	**13,260**
Total liabilities	**1,126,378**	**280,333**	**4,565**	**1,411,277**
Net balance sheet position	**440,107**	**(109,921)**	**(3,443)**	
Credit related commitments	**65,385**	**-**	**-**	**65,385**

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.

33 Financial Risk Management (Continued)

The geographical concentration of the Group's 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**

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.

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.

33 Financial Risk Management (Continued)

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 39.76% at 31 December 2008 (2008: 22.18%).

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 Department 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 2009 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 2009 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	10,543	10,764	5,177	876	2,448	29,808
Customer accounts – individuals	294,468	88,491	108,230	165,123	29,811	686,622
Customer accounts – other	267,679	14,241	21,806	13,524	3,629	320,879
Other financial liabilities	11,175	122	-	-	-	11,297
Other borrowed funds	12,112	3,239	66,204	174,645	8,145	264,345
Subordinated debt	3,969	-	15,094	128,142	98,276	245,480
Gross settled forwards	971	17,555	-	-	-	18,525
Financial guarantees	8,974	8,886	43,910	10,876	78	72,724
Other credit related commitments	65,385	-	-	-	-	65,385
Total potential future payments for financial obligations	**674,803**	**129,420**	**260,421**	**493,185**	**142,388**	**1,700,216**

33 Financial Risk Management (Continued)

The maturity analysis of financial liabilities 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**

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 2009:

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	321,047	11,801	-	-	-	332,848
Due from other banks	35,733		1,516			37,249
Loans and advances to customers	104,956	95,489	243,947	385,139	158,897	988,428
Investment securities available for sale					3,619	3,619
Investment securities held to maturity	11,480	68,536	35,480	-	-	115,496
Finance lease receivables	958	904	4,478	7,750	-	14,090
Other financial assets	7,009	-	-	-	-	7,009
Total financial assets	**481,183**	**176,730**	**285,421**	**392,889**	**162,516**	**1,498,739**
Liabilities						
Due to other banks	10,543	10,764	2,735	3,324	-	27,366
Customer accounts	574,592	100,799	282,793	30,355	2,634	991,172
Other borrowed funds	9,549	2,501	56,313	91,892	63,146	223,401
Other financial liabilities	5,603	122	-	-	-	5,725
Subordinated debt	2,105	-	-	72,050	76,198	150,353
Total financial liabilities	**602,392**	**114,185**	**341,841**	**197,620**	**141,978**	**1,398,017**
Net liquidity gap at 31 December 2009	**(121,209)**	**62,544**	**(56,420)**	**195,268**	**20,538**	**100,722**
Cumulative liquidity gap at 31 December 2009	**(121,209)**	**(58,665)**	**(115,085)**	**80,183**	**100,721**	

33 Financial Risk Management (Continued)

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.

The analysis by expected maturities 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 2007	**(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 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.

34 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by NBG and (ii) to safeguard the Group's ability to continue as a going concern. Compliance with capital adequacy ratios set by NBG 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 NBG 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 NBG and comprises:

In thousands of GEL	**2009**	**2008**
Share capital	216,723	148,097
Retained earnings	65,836	61,544
General loan loss provisions (up to 1.25 % of risk – weighted assets)	14,644	18,915
Less intangible assets	(3,728)	(4,398)
Less Investments into subsidiary companies and capital of other banks	(20,000)	(19,920)
Subordinated debt	116,388	56,011
Total regulatory capital	**389,863**	**260,249**

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	**2009**	**2008**
Tier 1 capital		
Share capital	216,723	150,448
Retained earnings	71,920	69,089
Less: Goodwill	(1,957)	(2,020)
Minority interest	5,294	5,165
Total tier 1 capital	**291,980**	**222,682**
Tier 2 capital		
Revaluation reserves	32,806	32,787
Subordinated debt	116,388	58,482
Total tier 2 capital	**149,193**	**91,269**
Total capital	**441,173**	**313,951**

The Bank has not complied with all externally imposed capital requirements throughout 2008, but the Bank was able to obtain necessary waivers from NBG in 2009. However, the Bank is in compliance with externally imposed capital requirements since the capital increase in April 2009.

35 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	**2009**	**2008**
Not later than 1 year	12	23
Later than 1 year and not later than 5 years	983	972
Later than 5 years	488	481
Total operating lease commitments	**1,483**	**1,476**

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 in compliance with covenants as at 31 December 2009.

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.

35 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

In thousands of GEL	Note	2009	2008
Guarantees issued		90,203	165,789
Undrawn credit lines		64,752	89,102
Letters of credit		632	18,622
Less: Provision for credit related commitments	20	(3,746)	(5,324)
Total credit related commitments		**151,841**	**268,189**

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 151,841 thousand at 31 December 2009 (2008: GEL 268,189 thousand). Credit related commitments are denominated in currencies as follows:

In thousands of GEL	2009	2008
Georgian Lari	61,316	66,807
US Dollars	73,972	188,323
Euro	18,567	18,383
Other	1,734	-
Total	**155,589**	**273,513**

36 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.

	2009		**2008**	
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 payable on settlement (-)	-	-	-	(6,688)
- USD receivable on settlement (+)	12,099	-		
- GEL payable on settlement (-)	-	(12,039)	-	(709)
- GEL receivable on settlement (+)	-	-	7,274	-
Fair value of foreign exchange forwards	**12,099**	**(12,039)**	**7,274**	**(7,397)**
Net fair value of foreign exchange forwards	**60**	**-**	**-**	**(123)**

37 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

In thousands of GEL	2009 Fair value	2009 Carrying value	2008 Fair value	2008 Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents	332,848	332,848	355,746	355,746
Due from other banks	37,249	37,249	47,770	47,770
Loans and advances to customers:				
- Corporate loans	427,185	457,264	601,654	627,894
- Consumer loans	168,849	183,451	232,517	236,602
- Mortgage loans	154,584	166,512	189,986	196,793
- Small and micro loans	135,833	147,390	169,012	175,027
- Others	33,811	33,811	51,726	51,726
Investment securities held to maturity	115,496	115,496	21,207	21,207
Investments in leases	14,090	14,090	23,766	23,766
Other financial assets	6,927	6,927	4,284	4,284
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**1,426,872**	**1,495,038**	**1,697,668**	**1,740,815**
FINANCIAL LIABILITIES				
Due to other banks	27,366	27,366	29,510	29,510
Customer accounts	991,172	991,172	844,822	844,822
Other financial liabilities	5,725	5,725	3,004	3,004
Other borrowed funds	223,401	223,401	708,443	708,443
Subordinated debt	150,353	150,353	75,819	75,819
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**1,398,017**	**1,398,017**	**1,661,598**	**1,661,598**

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

Fair values of trading securities included in other financial assets are determined by quoted market prices (Level 1). Fair values of foreign exchange forwards were determined by management using valuation technique with inputs observable in markets (Level 2).

(c) The methods and assumptions applied in determining fair values.

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.

37 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	2008
Due from other banks	2%	4%
Loans and advances to customers		
Corporate loans	21%	20%
Consumer loans	28%	29%
Mortgage loans	21%	21%
Small and Micro loans	24%	24%
Due to other banks		
- Correspondent accounts and overnight placements of other banks	2%	5%
- Term deposits of banks and other financial institutions	6%	9%
Customer accounts		
Current/settlement accounts of legal entities	2%	2%
Term deposits of legal entities	11%	12%
Current/demand accounts of individuals	4%	5%
Term deposits of individuals	11%	11%
Other borrowed funds		
- Loans from banks and other financial institutions - USD	5%	8%
- Loans from banks and other financial institutions – GEL	6%	14%
Subordinated debt	10%	10%

38 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 as of 31 December 2009:

In thousands of GEL	Loans and receivables	Available for sale assets	Trading assets	Held to maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	-	332,848
Due from other banks	37,249	-	-	-	37,249
Loans and advances to customers:					
Corporate loans	457,264	-	-	-	457,264
Consumer loans	183,452	-	-	-	183,452
Mortgage loans	166,512	-	-	-	166,512
Small and Micro loans	147,389	-	-	-	147,389
Others	33,811	-	-	-	33,811
Investment securities available for sale	-	3,619	-	-	3,619
Investment securities held to maturity	-	-	-	115,496	115,496
Investments in leases	14,090	-	-	-	14,090
Other financial assets:					
- Other financial receivables	6,927	-	-	-	6,927
- Corporate shares	-	-	82	-	82
TOTAL FINANCIAL ASSETS	**1,046,694**	**3,619**	**82**	**115,496**	**1,498,739**
NON-FINANCIAL ASSETS					**239,281**
TOTAL ASSETS					**1,738,020**

38. Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

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

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:					
Corporate loans	627,894	-	-	-	627,894
Consumer loans	236,602	-	-	-	236,602
Mortgage loans	196,793	-	-	-	196,793
Small and Micro loans	175,027	-	-	-	175,027
Others	51,726	-	-	-	51,726
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	**1,362,912**	**4,729**	**135**	**21,207**	**1,744,729**
NON-FINANCIAL ASSETS					**187,597**
TOTAL ASSETS					**1,932,326**

As at 31 December 2009 and 2008, 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.

39 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. Other related parties include entities in which shareholders have significant influence.

At 31 December 2009, the outstanding balances with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)	35,715	1,502	5,767
Impairment provisions for loans and advances to customers	(20,931)	(41)	(157)
Other borrowed funds	66,678	-	-
Customer accounts (contractual interest rate: 0 - 13 %)	5,671	2,799	262
Subordinated debt (contractual interest rate: 5 - 11.3 %)	69,375	-	-

39 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2009 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Interest income	3,695	202	112
Interest expense	15,089	220	8
Provision for loan impairment	17,537	11	43
Gains less losses from trading in foreign currencies	(18)	6	301
Fee and commission income	7	5	40
Administrative and other operating expenses	1,773	4,665	-
Charity contributions	-	-	3,502

At 31 December 2009, other rights and obligations with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Guarantees issued by the Group at the year end	-	-	198
Other commitments	89	95	-

Aggregate amounts of loans advanced to and repaid by related parties during 2009 were:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Amounts advanced to related parties during the period (including accrual of interest)	4,530	197	5,727
Amounts repaid by related parties during the period	(2,344)	(391)	-

During 2009 the Group has written off GEL 20,772 thousand of loans and advances to significant shareholders (2008: Nil).

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	(29,585)	(52)	-	-
Other borrowed funds	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	-	-	-

39 Related Party Transactions (Continued)

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 of loans advanced to and repaid by related parties during 2008 were:

In thousands of GEL	Significant shareholders	Key management personnel	Associates	Other related parties
Amounts advanced to related parties during the period (including accrual of interest)	67,437	902	1,500	-
Amounts repaid by related parties during the period	(15,205)	(253)	(1,500)	(298)

Key management compensation is presented below:

	2009		2008	
In thousands of GEL	Expense	Accrued liability	Expense	Accrued liability
Salaries	4,330	1,880	3,186	-
Equity-settled share-based compensation	275	--	617	--
Total	**4,605**	**1,880**	**3,803**	**-**