JSC KOR STANDARD BANK

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2008

CONTENTS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet ... 1
Consolidated Statement of Operations ... 2
Consolidated Statement of Changes in Equity ... 3
Consolidated Statement of Cash Flows ... 4

Notes to the Consolidated Financial Statements

1 Introduction ... 5
2 Operating Environment of the Bank ... 5
3 Summary of Significant Accounting Policies ... 6
4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies ... 13
5 Adoption of New or Revised Standards and Interpretations ... 14
6 New Accounting Pronouncements ... 14
7 Cash and Cash Equivalents ... 17
8 Loans and Advances to Customers ... 18
9 Investment Properties ... 21
10 Goodwill ... 21
11 Intangible Assets ... 22
12 Premises and Equipment ... 23
13 Other Financial Assets, Including Receivables from Shareholders ... 23
14 Other Assets ... 24
15 Due to Other Banks ... 25
16 Customer Accounts ... 25
17 Other Financial Liabilities ... 26
18 Other Liabilities ... 26
19 Subordinated Debt ... 26
20 Share Capital ... 27
21 Interest Income and Expense ... 27
22 Fee and Commission Income and Expense ... 28
23 Other Operating Income ... 28
24 Administrative and Other Operating Expenses ... 28
25 Income Taxes ... 29
26 Financial Risk Management ... 30
27 Management of Capital ... 39
28 Contingencies and Commitments ... 40
29 Fair Value of Financial Instruments ... 41
30 Presentation of Financial Instruments by Measurement Category ... 42
31 Related Party Transactions ... 42
32 Business Combinations ... 43

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC Kor Standard Bank:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

23 March 2009

In thousands of Georgian Lari	Note	31 December 2008	31 December 2007
Assets			
Cash and cash equivalents	7	37,820	-
Mandatory reserve deposits with NBG		4,941	
Loans and advances to customers	8	84,728	-
Investment properties	9	10,874	-
Deferred income tax asset	25	1,200	-
Goodwill	10	20,374	-
Intangible assets	11	12,621	-
Premises and equipment	12	11,644	-
Other financial assets, including receivable from shareholders	13	22,638	16,000
Other assets	14	1,022	-
Total assets		**207,862**	**16,000**
Liabilities			
Due to other banks	15	1,815	-
Customer accounts	16	113,428	-
Current income tax liability		105	
Other financial liabilities	17	21,605	-
Other liabilities	18	1,429	-
Subordinated debt	19	8,391	-
Total liabilities		**146,773**	**-**
EQUITY			
Share capital	20	75,000	16,000
Reserve		(485)	-
Accumulated deficit		(13,426)	-
Total equity		**61,089**	**16,000**
Total liabilities and equity		**207,862**	**16,000**

Approved for issue and signed on behalf of the Management Board on 23 March 2009.

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Imran Khizar Hayat
General Director

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Irina Vorman
Chief Accountant

In thousands of Georgian Lari	Note	2008
Interest income	21	18,370
Interest expense	21	(9,345)
Net interest income		**9,025**
Provision for loan impairment	8	(2,699)
Net interest income after provision for loan impairment		**6,326**
Fee and commission income	22	2,739
Fee and commission expense	22	(1,460)
Gains less losses from trading in foreign currencies		518
Foreign exchange translation losses net of gains		(97)
Other operating income	23	556
Administrative and other operating expenses	24	(21,690)
Loss before tax		**(13,108)**
Income tax credit	25	1,677
Loss for the year		**(11,431)**

In thousands of Georgian Lari	Note	Share capital	Reserve	Accumulated deficit	Total
Balance at 31 December 2007		**16,000**		**-**	**16,000**
Adjustment on initial recognition of equity	20	-	(2,480)	-	**(2,480)**
Unwinding of adjustment on initial recognition of equity	20		1,995	(1,995)	**-**
Loss for the year		-	**-**	(11,431)	**(11,431)**
Total recognised loss			**(485)**	**(13,426)**	**(13,911)**
Share issue	20	**59,000**		**-**	**59,000**
Balance at 31 December 2008		**75,000**	**(485)**	**(13,426)**	**61,089**

In thousands of Georgian Lari	Note	2008
Cash flows from operating activities		
Interest received		16,038
Interest paid		(6,823)
Fees and commissions received		2,739
Fees and commissions paid		(1,460)
Income received from trading in foreign currencies		518
Other operating income received		281
Staff costs paid		(9,594)
Administrative and other operating expenses paid		(7,571)
Income tax paid		(254)
Cash flows used in operating activities before changes in operating assets and liabilities		**(6,126)**
Net increase in mandatory reserve deposits with NBG		(4,941)
Net increase in loans and advances to customers		(19,228)
Net decrease in other financial assets		731
Net increase in other assets		(1,008)
Net decrease in due to other banks		(18,521)
Net increase in customer accounts		67,828
Net decrease in other financial liabilities		(341)
Net increase in other liabilities		1,578
Net cash from operating activities		**19,972**
Cash flows from investing activities		
Acquisition of investment securities held to maturity		(17,327)
Proceeds from redemption of investment securities held to maturity		17,327
Acquisition of premises and equipment		(981)
Acquisition of subsidiary net of cash acquired	32	(14,840)
Acquisition of subsidiary, second instalment	32	(14,000)
Acquisition of investment properties		(5,240)
Acquisition of intangible assets		(43)
Net cash used in investing activities		**(35,104)**
Cash flows from financing activities		
Issue of ordinary shares		52,783
Net cash from financing activities		**52,783**
Effect of exchange rate changes on cash and cash equivalents		169
Net increase in cash and cash equivalents		**37,820**
Cash and cash equivalents at the beginning of the year		-
Cash and cash equivalents at the end of the year	7	**37,820**

1 Introduction

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

JSC "Kor Bank" was incorporated on 30 December 2007 and is domiciled in the Republic of Georgia. As of 31 December 2008 the Bank's immediate shareholders were Sheikh Nahayan Mabarak Al Nahayan, owning 50% of shares, Sheikh Hamdan Bin Zayed Al Nehayan, owning 20% of shares, Sheikh Mohammed Butti Al Hamed, owning 15% of shares and Sheikh Mansoor Bin Zayed Bin Sultan Al Nehayan, owning 15%. On 6 March 2008, the Bank acquired 100% shares of JSC Standard Bank, a local Georgian bank. In July 2008 JSC Standard Bank ceased to exist as a legal entity following the merger of its assets and liabilities with JSC Kor Bank whose legal name was changed to JSC Kor Standard Bank after the merger. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations.

Principal activity. Bank's principal business activity is commercial and retail banking operations within the Republic of Georgia. The Bank has operated under a full banking licence issued by the National Bank of Georgia ("NBG") since 25 February 2008.

As of 31 December 2008 the Bank has 24 branches within the Republic of Georgia. The Bank has representative offices in Tsnori, Dedoplistskaro and Senaki.

Registered address and place of business. The Bank's registered address is: Chavchavadze Avenue 43, Tbilisi 0162, Georgia.

Presentation currency. These consolidated financial statements are presented in thousands of Georgian Lari ("GEL thousands"). At 31 December 2008, the closing rate of exchange used for translating foreign currency monetary balances was USD 1 = GEL 1.6670 (31 December 2007: USD 1 = GEL 1.5916).

2 Operating Environment of the Bank

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

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

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

2 Operating Environment of the Bank (Continued)

Recent volatility in global financial markets. Due to the recent turbulence in the global financial markets, commonly referred to as the "credit crunch" and its effects, particularly, the lack of liquidity in credit markets and the ability for banks and local companies to obtain financing, there is a potential for the economic growth rate of Georgia to reduce and therefore limit the further expansion of the Bank's activities, at least in the short term. Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. Debtors or borrowers of the Bank may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to predict all developments which could have an impact on the banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Bank.

Borrowers of the Bank may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers and customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

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

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

3 Summary of Significant Accounting Policies

Basis of 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 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. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied throughout presented period.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose 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 deconsolidated from the date that control ceases.

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value 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 Bank 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 arm's 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. 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).

3 Summary of Significant Accounting Policies (Continued)

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank 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 Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank 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 balances with NBG (other than mandatory reserve deposits) 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 reserve deposits with the NBG. Mandatory reserve deposits with the NBG are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank 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.

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.

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.

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 Bank 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 Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

3 Summary of Significant Accounting Policies (Continued)

The following other principal criteria are also used to determine whether 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 the borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an 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; or
- 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. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management, including past experience of acquired JSC Standard Bank, in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past 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. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the statement of operations.

Credit related commitments. The Bank 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 Bank 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 remaining 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.

3 Summary of Significant Accounting Policies (Continued)

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank 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.

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

Investment properties are stated at cost, less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Bank estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through profit or loss. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in statement of operations within other operating income.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying value at the date of reclassification becomes its deemed cost to be subsequently depreciated.

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 Bank 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 Banks 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 Bank 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.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment. Premises and equipment acquired in business combination are initially recorded at fair value. Construction in progress is carried at cost less provision for impairment where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

At each reporting date management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of operations. 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.

3 Summary of Significant Accounting Policies (Continued)

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

	Useful lives in years
Premises	25
Office and computer equipment	5
Furniture, fixtures and other equipment	5
Motor vehicles	5
Leasehold improvements	over 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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Bank's intangible assets have definite useful life.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised computer software is amortised on a straight line basis over expected useful lives of four to five years.

The value of customer relationship identified as a result of business combination is amortised on a straight line basis over expected customer relationship duration of ten years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, the liability 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.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of operations 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.

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 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 Bank. 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.

3 Summary of Significant Accounting Policies (Continued)

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

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

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares 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 share premium in equity. Balances receivable from shareholders representing un-paid capital are initially recognised at fair value with the discount reflected in an equity reserve. The unwinding of the discount is recognised through the income statement and reclassified from accumulated profit/loss to the reserves.

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Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Georgian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of operations 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 Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank 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 the 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. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retains no part of the loan package for itself or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and 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 continually provided over an extended period of time.

3 Summary of Significant Accounting Policies (Continued)

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

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the NBG 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 of the NBG 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.

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, contributions, 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 Bank.

Corresponding figures. The Bank commenced its operations in 2008. Consequently, these consolidated financial statements do not present corresponding figures for 2007, except for accounts receivable from shareholders and share capital.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying 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:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of operations, the Bank 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.

Initial recognition of related party transactions. In the normal course of business the Bank 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. Terms and conditions of related party balances are disclosed in Note 31.

Deferred tax assets. Management believes that it is probable that future taxable profit will be available against which the deductions can be utilised. In making such judgment management considered the Bank's short and long term growth strategy, budgets for five years and past profitability trend of the acquired bank. Accordingly, deferred tax assets were recorded in the financial statements.

Goodwill impairment test. The recoverable amount of goodwill was estimated based on a value in use calculation. Refer to Note 10.

Intangible assets. Management estimated the value of customer relationships as an identified asset based on expected future economic benefits. Management estimated useful life of such asset to be ten years. Refer to Note 11.

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

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, expansion of operations, access to financial resources and analysed the impact of the recent financial crisis on future operations of the Bank.

5 Adoption of New or Revised Standards and Interpretations

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

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

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

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

6 New Accounting Pronouncements

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

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

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

6 New Accounting Pronouncements (Continued)

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the statement of operations by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to affect the presentation of its financial statements, but to have no impact on the recognition or measurement of specific transactions and balances.

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

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

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (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, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. 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 amendments will not have an impact on the Bank's financial statements.

IFRIC 13, 'Customer loyalty programmes' (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Bank's operations because no companies operate any loyalty programmes.

6 New Accounting Pronouncements (Continued)

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and terminological corrections to various standards. The Bank does not expect the amendments to have any material effect on its financial statements, however, is currently considering any impact on its financial statements of ***IAS 40, Investment Property (and consequential amendments to IAS 16)***, where 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 amendment is effective for annual periods beginning on or after 1 January 2009.

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

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

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

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

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

6 New Accounting Pronouncements (Continued)

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

7 Cash and Cash Equivalents

In thousands of Georgian Lari	**2008**
Cash on hand	11,087
Correspondent accounts and overnight placements with other banks	12,413
Placements with other banks with original maturities of less than three months	11,798
Cash balances with the NBG (other than mandatory reserve deposits)	2,522
Total cash and cash equivalents	**37,820**

Interest rate analysis of cash and cash equivalents is disclosed in Note 26.

The credit quality of cash equivalents balances may be summarised based on Fitch ratings as follows at 31 December 2008:

In thousands of Georgian Lari	**Cash balances with the NBG, excluding mandatory reserves**	**Correspondent accounts and overnight placements**	**Placements with other banks**	**Total**
Neither past due nor impaired				
- National bank of Georgia	2,522	-	-	**2,522**
- AA- to AA+ rated	-	57	-	**57**
- A- to A+ rated	-	39	-	**39**
- Lower than A- rated	-	12,095	11,798	**23,893**
- Unrated	-	222	-	**222**
Total cash and cash equivalents	**2,522**	**12,413**	**11,798**	**26,733**

8 Loans and Advances to Customers

In thousands of Georgian Lari	2008
Gold pawn loans	37,170
Corporate loans	25,639
Loans to individuals - consumer loans	18,436
Mortgage loans	5,670
Loans to individuals - entrepreneurs	512
Less: Provision for loan impairment	(2,699)
Total loans and advances to customers	**84,728**

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

In thousands of Georgian Lari	Loans to individuals - consumer loans	Corporate loans	Mortgage loans	Loans to individuals - entrepreneurs	Gold pawn loans	Total
Provision / (Reversal) for impairment during the year	990	1,580	101	28	-	2,699
Provision for loan impairment at 31 December 2008	**990**	**1,580**	**101**	**28**	**-**	**2,699**

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

	2008	
In thousands of Georgian Lari	Amount	%
Gold pawn loans to individuals	37,170	43%
Trading and service sector	21,197	24%
Individuals	18,653	21%
Energy sector	3,909	4%
Transportation or communications sector	3,583	4%
Agriculture and food processing	1,810	2%
Construction sector	80	0%
Other sectors	1,025	1%
Total loans and advances to customers (before impairment)	**87,427**	**100%**

At 31 December 2008 the Bank had 10 borrowers with aggregated loan amounts above GEL 1,000 thousand. The total aggregate amount of these loans was GEL 29,520 thousand or 33% of the gross loan portfolio.

8 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2008 is as follows:

In thousands of Georgian Lari	Gold pawn loans	Corporate loans	Loans to individuals - consumer loans	Mortgage loans	Loans to individuals – entre-preneurs	Total
Unsecured loans	-	3,565	4,534	-	-	**8,099**
Loans collateralised by:						
Precious metal	37,170	-	-	-	-	**37,170**
Commercial space	-	14,163	428	1,484	130	**16,205**
Third party guarantee	-	3,814	2,901	1,571	75	**8,361**
Residential space	-	1,270	4,255	2,373	294	**8,192**
Cash deposits	-	774	2,515	-	-	**3,289**
Land	-	2,004	784	220	12	**3,020**
Movable property	-	21	1,291	22	-	**1,334**
Other assets	-	28	5	-	1	**34**
Salary project	-	-	1,723	-	-	**1,723**
Total loans and advances to customers	**37,170**	**25,639**	**18,436**	**5,670**	**512**	**87,427**

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

In thousands of Georgian Lari	Gold pawn loans	Corporate loans	Loans to individuals - consumer loans	Mortgage loans	Loans to individuals – entre-preneurs	Total
Neither past due nor impaired						
up to 2,000	-	1	3,512	-	1	**3,514**
from 2,000 to 10,000	-	26	4,642	62	13	**4,743**
from 10,000 to 20,000	-	90	2,081	215	66	**2,452**
from 20,000 to 50,000	11	342	2,401	1,085	80	**3,919**
from 50,000 to 100,000	343	1,338	1,712	1,488	205	**5,086**
from 100,000 to 500,000	11,245	2,627	1,871	653	130	**16,526**
from 500,000 to 1,000,000	9,305	1,190	-	1,048	-	**11,543**
above 1,000,000	16,266	9,254	-	1,013	-	**26,533**
- Loans renegotiated in 2008	-	3,835	7	-	-	**3,842**
Total neither past due nor impaired	**37,170**	**18,703**	**16,226**	**5,564**	**495**	**78,158**
Past due but not impaired						
- less than 30 days overdue	-	77	360	-	-	**437**
- 30 to 90 days overdue	-	36	201	17	3	**257**
- 90 to 180 days overdue	-	54	330	-	-	**384**
- 180 to 360 days overdue	-	81	394	-	14	**489**
Total past due but not impaired	-	**248**	**1,285**	**17**	**17**	**1,567**

8 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	Gold pawn loans	Corporate loans	Loans to individuals - consumer loans	Mortgage loans	Loans to individuals – entre-preneurs	Total
Loans individually determined to be impaired (gross)						
.- no overdue days	-	5,089	-	-	-	**5,089**
- less than 30 days overdue	-	246	350	-	-	**596**
- 30 to 90 days overdue	-	331	-	-	-	**331**
- 90 to 180 days overdue	-	-	-	91	-	**91**
- 180 to 360 days overdue	-	1,040	555	-	-	**1,595**
Total individually impaired loans (gross)	**-**	**6,706**	**905**	**91**	**-**	**7,702**
Less impairment provisions	**-**	**(1,580)**	**(990)**	**(101)**	**(28)**	**(2,699)**
Total loans and advances to customers	**37,170**	**24,077**	**17,426**	**5,571**	**484**	**84,728**

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

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

The 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 Georgian Lari	Corporate loans	Loans to individuals - consumer loans	Mortgage loans	Loans to individuals - entrepreneurs	Total
Fair value of collateral - loans past due but not impaired					
Unsecured	83	665	-	-	**748**
Residential Space	67	248	17	28	**360**
Commercial Space	-	111	-	-	**111**
Movable property	-	53	-	-	**53**
Third Party Guarantee	98	66	-	-	**164**
Salary project	-	142	-	-	**142**
Fair value of collateral - individually impaired loans					
Unsecured	217	-	-	-	**217**
Commercial Space	6,044	-	-	-	**6,044**
Residential Space	-	555	91	-	**646**
Land	445	350	-	-	**795**
Total	**6,954**	**2,190**	**108**	**28**	**9,280**

8 Loans and Advances to Customers (Continued)

Neither past due nor impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans primarily include 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.

Refer to Note 29 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 26.

9 Investment Properties

In thousands of Georgian Lari	**Notes**	**2008**
Investment properties cost as of 1 January		
Additions		5,240
Additions through business combination	32	5,984
Depreciation charge	24	(168)
Impairment during the year	24	(182)
Investment properties at cost as of 31 December		**10,874**

Investment properties of the Bank include two buildings which the management is intending to use to generate rental income.

Management considered as an objective indicators of impairment political situation in Georgia and significant decline of real estate prices in local market. For the purposes of impairment test, the management performed revaluation of premises of the Bank as of 31 December 2008. Value in use of the buildings representing investment property was assessed by the management using income capitalisation approach. Recoverable amount of buildings was determined as higher of fair value less cost to sell and value in use.

The valuation was carried out by an independent firm of valuers, Baker & Tilly Georgia, who hold 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 market value.

Based on described above analysis performed by management, impairment loss for the investment properties as of 31 December 2008 was GEL 182 thousand, included in administrative and other operating expenses. Refer to Note 24.

Carrying amount of each item of investment properties as at 31 December 2008 approximates its fair value.

10 Goodwill

Movement in goodwill arising on the acquisition of JSC Standard Bank is:

In thousands of Georgian Lari	**Note**	**2008**
Acquisition of JSC Standard Bank	32	20,374
Carrying amount at 31 December		**20,374**

10 Goodwill (Continued)

Goodwill Impairment Test

The Bank as a whole currently represents the business continuation of JSC Standard Bank and as such is treated by management as one cash generating unit ("CGU").

Management believes that investment in acquired bank was in line with the shareholderss long-term expansion strategy in the region and that any access amount paid to acquire JSC Standard Bank will provide future economic benefits beyond five year period. Accordingly, the recoverable amount of CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year period. Based on long-term strategy of the Bank, management estimates that CGU will generate cash flow for more than ten years. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of revenue by 20% constantly.

The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2008
Growth rate for five years	20% p.a.
Growth rate beyond five years	20% p.a.
Pre-tax discount rate	9% p.a.

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

The discount rates used are pre-tax and reflect specific risks relating to the acquired business.

11 Intangible Assets

In thousands of Georgian Lari	**Notes**	**Customer relationships**	**Computer software licenses**	**Total**
Additions through business combinations	32	13,657	119	**13,776**
Additions		-	43	**43**
Amortisation charge	24	(1,122)	(76)	**(1,198)**
Cost or revaluation at 31 December 2008		**13,657**	**162**	**13,819**
Accumulated amortisation		**(1,122)**	**(76)**	**(1,198)**
Carrying amount at 31 December 2008		**12,535**	**86**	**12,621**

Intangible assets include customer relationships that was identified as a result of the business combination. Fair value of customer relationships were estimated by the management by applying income capitalization approach using multi-period-excess-earnings method. Useful life of customer relationships is ten years.

12 Premises and Equipment

In thousands of Georgian Lari	Note	Premises	Computers and Communication Equipment	Vehicles	Furniture, Fixtures and other Fixed Assets	Leasehold Improvement	Total
Acquisitions through business combinations	32	778	2,071	650	3,602	5,784	**12,885**
Additions		-	229	371	167	216	**983**
Disposals		-	-	(43)	(49)	-	**(92)**
Disposals, accumulated depreciation		-	-	10	-	-	**10**
Depreciation charge	24	(13)	(441)	(139)	(735)	(814)	**(2,142)**
Carrying amount at 31 December 2008		**765**	**1,859**	**849**	**2,985**	**5,186**	**11,644**
Cost at 31 December 2008		778	2,300	978	3,720	6,000	**13,776**
Accumulated depreciation		(13)	(441)	(129)	(735)	(814)	**(2,132)**
Carrying amount at 31 December 2008		**765**	**1,859**	**849**	**2,985**	**5,186**	**11,644**

Included in premises is GEL 740 thousand represents carrying amount of owner occupied portion of the building, part of which is intended to be used as an investment property by the management. Refer to Note 9.

Premises and equipment with gross amount of GEL 437 thousand represent fully depreciated assets that are still in use.

13 Other Financial Assets, Including Receivables from Shareholders

In thousands of Georgian Lari	Note	2008	2007
Receivables from shareholders	20	21,605	16,000
Trade receivables		184	-
Credit and debit cards receivables		56	-
Settlements on money transfer operations		612	-
Restricted cash		181	-
Total other financial assets		**22,638**	**16,000**

Receivable from shareholders balance as of 31 December 2008 of GEL 21,605 thousand (2007: 16,000 thousand) represents amortized cost of not paid portion of authorized capital of the Bank. The amount is discounted using average rate of 9%, which approximates market interest rate for foreign investments in Georgia as of 6 March 2008. Refer to Note 20 for the disclosure of the share capital.

Restricted cash represents balances on correspondent accounts with foreign banks placed by the Bank on behalf of its customers. The Bank does not have the right to use these funds for the purposes of funding its own activities. The Bank has received restricted deposits from these customers in the same amounts which are recorded in customer accounts.

Analysis by credit quality of other financial receivables outstanding at 31 December 2008 is as follows:

13 Other Financial Assets, Including Receivables from Shareholders (Continued)

In thousands of Georgian Lari	Receivables from shareholders	Credit and debit cards, other receivables	Settlements on money transfer operations and restricted cash	Total
Neither past due nor impaired				
- Receivable from shareholders	21,605	-	-	**21,605**
- Collected after the balance sheet date	-	240	793	**1,033**
Total neither past due nor impaired	**21,605**	**240**	**793**	**22,638**
Total other financial receivables	**21,605**	**240**	**793**	**22,638**

Analysis by credit quality of other financial receivables outstanding at 31 December 2007 is as follows:

In thousands of Georgian Lari	Total
Neither past due nor impaired	
- Collected after the balance sheet date from shareholders	**16,000**
Total neither past due nor impaired	**16,000**
Total other financial receivables	**16,000**

Carrying value of each class of other financial assets approximates fair value at 31 December 2008 and 31 December 2007. Information on related party balances is disclosed in Note 31.

14 Other Assets

In thousands of Georgian Lari	2008
Prepayments for services	600
Current income tax asset	221
Other tax prepayments	130
Repossessed collateral	68
Other	3
Total other assets	**1,022**

Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale as the Bank had not initiated an active program to locate a buyer before the balance sheet date. The assets were initially recognised at fair value when acquired.

15 Due to Other Banks

In thousands of Georgian Lari	2008
Correspondent accounts and overnight placements of other banks	20
Short-term placements of other banks	295
Certificate of Deposit agreement with National Bank of Georgia	1,500
Total due to other banks	**1,815**

At 31 December 2008, included in amounts due to other banks are Certificate of Deposit agreements with National Bank of Georgia of GEL 1,500 thousand. Correspondent Euro account of EUR 655 thousand (GEL equivalent 1,549 thousand) is pledged as security in NBG.

The carrying value of each class of due to other banks approximates fair value at 31 December 2008.

Interest rate analysis of due to other banks is disclosed in Note 26.

16 Customer Accounts

In thousands of Georgian Lari	2008
State and public organisations	
- Current/settlement accounts	14
Other legal entities	
- Current/settlement accounts	18,984
- Term deposits	15,908
Individuals	
- Current/demand accounts	16,253
- Term deposits	62,269
Total customer accounts	**113,428**

16 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2008	
In thousands of Georgian Lari	Amount	%
Individuals	78,521	69.23%
Construction	12,155	10.72%
Trade	6,837	6.03%
Non-for profit organisations	5,096	4.49%
Telecommunications	1,847	1.63%
Transport and Communication	823	0.73%
Energy	603	0.53%
Investment companies	237	0.21%
Other	7,309	6.44%
Total customer accounts	**113,428**	**100%**

At 31 December 2008 the Bank had 12 customers with balances above GEL 1,000 thousand. The aggregate balance of these customers was GEL 58,181 thousand or 51% of total customer accounts.

The carrying value of each class of customer accounts approximates fair value at 31 December 2008.

Interest rate analysis of customer accounts is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

17 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Georgian Lari	**2008**
Deferred consideration for acquisition	20,539
Debit or credit card payables	330
Settlement on money transfer operations	579
Other accrued liabilities	157
Total other financial liabilities	**21,605**

Deferred consideration for acquisition as of 31 December 2008 of GEL 20,539 thousand represents amortized cost of unpaid balance of acquisition cost. The amount is discounted using average rate of 9%, which approximates to market interest rate for foreign investments in Georgia as of 6 March 2008. Refer to Note 32 for the disclosure of business combinations.

The carrying value of each class of other financial liabilities approximates fair value at 31 December 2008.

18 Other Liabilities

Other liabilities comprise the following:

In thousands of Georgian Lari	**2008**
Accrued employee benefit costs	754
Taxes payable other than on income	490
Liabilities for payments to utility companies	66
Other	119
Total other liabilities	**1,429**

Balance of accrued employee benefit costs includes performance bonuses of GEL 504 thousand and unused vacations of GEL 250 thousand.

19 Subordinated Debt

In thousands of Georgian Lari	**2008**
Standard Capital Georgia Ltd (US dollar denominated, granted 29 September 2005; 10 equal annual payments with annual interest rate of 11%, maturing 29 September 2025)	5,027
Standard Capital Georgia Ltd (US dollar denominated, granted 15 December 2006; 10 equal annual payments, with annual interest rate of 11%, maturing 15 December 2026)	3,364
Total subordinated debt	**8,391**

The debt ranks after all other creditors in case of liquidation. The carrying value of subordinated debt approximates fair value at 31 December 2008.

Interest rate analysis of subordinated debt is disclosed in Note 26.

20 Share Capital

In thousands of Georgian Lari except for number of shares	Number of outstanding shares in thousands	Ordinary shares
At 1 January 2008	160	16,000
New shares issued	590	59,000
At 31 December 2008	**750**	**75,000**

The total authorised number of ordinary shares is 750 thousand shares (2007: 160 thousand shares) with a par value of GEL 100 per share (2007: GEL 100 per share). The number of ordinary shares issued but not fully paid in was 222 thousand (2007: 590 thousand). Each ordinary share carries one vote.

The difference between initially recognised fair value of receivable for not paid amount of share capital and its nominal value of GEL 2,480 thousand was recorded directly in equity. Unwinding of recorded fair value adjustment was transferred to accumulated deficit during the year for the amount of GEL 1,995 thousand. Refer to Note 13.

21 Interest Income and Expense

In thousands of Georgian Lari	Notes	2008
Interest income		
Loans and advances to customers		11,757
Debt investment securities available for sale		3,906
Unwinding of discount on receivables from shareholders	13	1,995
Investment securities held to maturity		406
Due from other banks		306
Total interest income		**18,370**
Interest expense		
Term deposits of legal entities		4,230
Unwinding of discount for deferred consideration	17	2,000
Debt securities in issue		1,116
Other borrowed funds		1,112
Term deposits of individuals		498
Term placements of other banks		386
Overnight placements of other banks		3
Total interest expense		**9,345**
Net interest income		**9,025**

22 Fee and Commission Income and Expense

In thousands of Georgian Lari	2008
Fee and commission income	
Fee and commission income in respect of financial instruments not at fair value through profit or loss:	
- Cash transactions	834
- Currency conversion operations	801
- Settlement transactions	459
- Cash collection	274
- Fee income from issuing plastic cards	202
- Guarantees issued	24
- Other	145
Total fee and commission income	**2,739**
Fee and commission expense	
Fee and commission expense in respect of financial instruments not at fair value through profit or loss	
- Cash transactions	691
- Fee expenses for custodial services (Visa, GC)	301
- Currency conversion operations	289
- Settlement transactions	107
- Commission for guarantees	8
- Other	64
Total fee and commission expense	**1,460**
Net fee and commission income	**1,279**

23 Other Operating Income

In thousands of Georgian Lari	2008
Rental income from investment properties	411
Recovery of loans previously written off as uncollectible	91
Other	54
Total other operating income	**556**

24 Administrative and Other Operating Expenses

In thousands of Georgian Lari	Note	2008
Staff costs		10,348
Depreciation of premises and equipment	12	2,142
Professional services		1,762
Operating lease expense for premises and equipment		1,411
Amortization of intangible assets	11	1,198
Taxes other than on income		896
Advertising and marketing services		374
Impairment of investment properties	9	182
Depreciation of investment property	9	168
Other		3,209
Total administrative and other operating expenses		**21,690**

25 Income Taxes

Income tax credit recorded in the statement of operations comprises the following:

In thousands of Georgian Lari	**2008**
Current tax	105
Deferred tax	(1,782)
Income tax credit for the year	**(1,677)**

Current tax of GEL 104 thousand represents under accrual of income tax liability of JSC Standard Bank.

The income tax rate applicable to the majority of the Bank's 2008 income is 15%. A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Georgian Lari	**2008**
Loss before tax	**(13,108)**
Theoretical tax charge at statutory rate of 15%	(1,966)
Tax effect of items which are not deductible or assessable for taxation purposes:	
- Non-deductible expenses	184
- Under provision of current tax in prior years	105
Income tax credit for the year	**(1,677)**

The Bank has recognised potential deferred tax assets in respect of unused tax loss carry forwards of GEL 2,480 thousand (2007: GEL 0 thousand). The tax loss carry forwards expire in 2013.

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

25 Income taxes (Continued)

In thousands of Georgian Lari	31 December 2007	Business combination	Credited/ (charged) to profit or loss	31 December 2008
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Tax losses carried forward	-	144	2,480	2,624
Loans and advances to customers	-	-	(57)	(57)
Allowance for impairment	-	42	(160)	(118)
Investment property	-	(346)	27	(319)
Goodwill	-	-	(721)	(721)
Premises and equipment	-	(334)	58	(276)
Receivables from shareholders	-	-	18	18
Other assets	-	9	(1)	8
Other accrued liabilities	-	(14)	-	(14)
Other liabilities	-	(83)	25	(58)
Accrued employee benefit costs	-	-	113	113
Net deferred tax asset/(liability)	**-**	**(582)**	**1,782**	**1,200**
Recognised deferred tax asset	-	195	2,721	2,841
Recognised deferred tax liability		777	939	1,641
Net deferred tax asset/(liability)	**-**	**(582)**	**1,782**	**1,200**

26 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, and liquidity risks), operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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.

The Risk Management Framework. The risk management function is an integral part of the Bank's internal control system and is centralised. The Bank's risk management policies and approaches aim to identify, analyse, mitigate and manage the risks faced by the Bank. This is accomplished through setting appropriate risk limits and controls, continuously monitoring risk levels and the adherence to limits and procedures and ensuring that business processes are correctly formulated and maintained.

Risk Management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and to ensure that "best practices" are implemented. The Bank, as part of its risk culture, emphasises integrity, management and employee standards in order to maintain and continuously improve upon a conservative control environment.

26 Financial Risk Management (Continued)

Risk Management Bodies and Governance. Risk management policy, assessment, approval, monitoring and controls are conducted by a number of specialised bodies within the Bank. These bodies also oversee the risk management policies and controls at the Bank subsidiary.

The Supervisory Board of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing risk management policies as well as several key risk limit approval authorities, including significantly large exposures, economic and product sector limits. It also delegates certain authority levels to the Management Board and the Credit Committee.

Established by, appointed by and reporting directly to the Supervisory Board are the Management Board, the Risk Management Committee, the Audit Committee ("AC"), the Internal Audit Department, the Credit Committee and the Asset and Liability Committee ("ALCO").

The Management Board is responsible for the implementation and monitoring of risk mitigation measures and ensuring that the Bank operates within the established risk parameters. The Member of the Management Board responsible for risk management along with the Risk Management Department which reports to this Director are responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, mitigating, managing and reporting both financial and non-financial risks.

The Risk Management Committee is chaired by the Member of the Management Board responsible for risk management. This Committee is responsible for establishing risk management methodologies and ensuring that the risk appetite of the Bank is correctly reflected in the strategic and business plans of the Bank. It is the main forum for discussing and recommending changes in all risk approaches and procedures to the Management and Supervisory Boards. It ensures that the Risk Management Department, the Credit Committee and ALCO, as well as the Management Board, address all potential risks facing the Bank and reports on these issues to the Supervisory Board.

The Audit Committee is responsible for overseeing and monitoring the internal control framework of the Bank and for assessing the adequacy of risk management policies and procedures, as an integral part of the internal control system of the Bank. The Chairman of the AC, an independent professional auditor, and the other four Committee members are representatives of four of the shareholders. The AC members cannot be employees or part of the management structure of the Bank. They provide recommendations to the Management Board, the Risk Management Committee and the Supervisory Board on development of the framework, as well as their views on, the quality of risk management and compliance with established policies, procedures and limits. The AC supervises the work of the Internal Audit, which reports directly to the AC. The Internal Audit's working plans, schedule of audits and its reports, including non-planned audits, are closely reviewed and approved by the AC. Implementation plans based on Internal Audit's and the AC's recommendations, including status reports, are reported to the Management Board, the Supervisory Board and the General Meeting of the Shareholders.

The Credit Committee consists of five members. They are nominated by the Risk Management Committee and the Management Board and elected by the Supervisory Board. The Credit Committee manages and approves, or recommends for approval, corporate, retail and financial organisations' counterparty credit risk exposures within its credit approval authority. It also continuously reviews and makes recommendations as to analysis methodology and portfolio quality, including overall structure, diversification and pricing. The Credit Committee is one of the bodies which ensures adherence to all approval and authority limits and high standards for risk analysis and assessments.

ALCO is responsible for the management and optimisation of the Bank asset and liability structure. It is an integral part of the risk management process that focuses on various market risks, including liquidity, foreign currency and interest rate risks. ALCO's functions include making recommendations for approval of strategies, policies and limits associated with the aforementioned risks. It is responsible for providing timely and reliable information and reports regarding these risk areas. ALCO assists in setting pricing policies and funding strategies. It is also responsible, along with other risk management and controlling units of the Bank, for ensuring that Treasury and other relevant units work with the parameters set by ALCO, the Risk Management Committee, the Management Board and the Supervisory Board.

26 Financial Risk Management (Continued)

Credit risk. Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations when due. The major portion of credit risk arises from the Banks' loans and advances to customers and banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Bank considers and consolidates all elements of credit risk exposures such as individual customer and counterparty default risk and industry risk.

The general credit risk exposure, for corporate legal entities, private individuals and financial organisations is addressed by the approval structure for each loan issued as follows:

For secured loans:

- The Supervisory Board reviews and approves limits above GEL 400 thousand and meets on a regular basis;
- The Management Board reviews and approves limits above GEL 85 thousand up to a maximum of GEL 400 thousand and meets on a regular basis; and
- The Credit Committee reviews and approves limits below GEL 85 thousand and meets on a regular basis.

The loan approval structure for unsecured loans is the same as for the secured ones above.

The Management Board also approves limits and authority levels for exposures, as follows:

- By branch;
- By collateral type and loan to value ratios;
- By individual authority.

Credit Risk Management. Credit risk policy is developed by the Risk Management Committee and Management Board in line with the risk profile and strategic plans of the Bank.

This policy establishes:

- Procedures for generating, analysing, reviewing and approving counterparty risk exposures;
- The methodology for the credit assessment of counterparties;
- The methodology for the credit rating of counterparties;
- The methodology for the evaluation and control of collateral;
- Credit documentation requirements;
- Loan administration procedures;
- Procedures for the ongoing monitoring of credit exposures;
- Environmental policy; and
- Loan loss provisioning policy.

Loan/credit requests are originated and generated by credit managers. Credit applications within approved authority limits are approved by the branches or Credit Committee. Then copies of these approved requests are submitted to the Risk Management Department for post-control and input into a monitoring schedule. Risk exposure requests above these limits are sent to the Risk Management Department which performs a secondary analysis and issues a report. If the credit request is below a certain authorised limit and receives a positive opinion from Risk Management, and is signed off by the appropriate individuals, then the request is considered approved. If the opinion of risk management is negative then the request is sent to the Credit Committee for adjudication. If approved and the transaction is in an amount higher than the competence of the Credit Committee then it is sent to the Management Board for approval. Large transactions, as defined above, have to be submitted to the Supervisory Board for approval.

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

The Bank uses Credit Info, software developed by third party to identify potentially risky customers. Credit assessments are done on a portfolio basis concentrating on amount and term limits, approval procedures, target groups, types of product, default statistics, loan/value ratios (if applicable), and pricing.

26 Financial Risk Management (Continued)

Collateral and other credit enhancements. Exposure to credit risk is also assessed and managed, in part, by obtaining, controlling and monitoring collateral in the form of mortgage interests over property, pledge of assets and securities and other collateral including deposits, corporate and personal guarantees.

While collateral is an important mitigating factor in assessing the credit risk, it is the Bank's policy to establish that loans are within the customer's capacity to repay rather to rely solely on security. Collateral is considered as a secondary source of repayment. In limited cases, depending on the customer's standing or on the type of product or amounts, the facilities may be unsecured. The Bank has in place various limits on the unsecured portions of its risk portfolio.

The principal types of collateral accepted by the Bank are as follows:

- Commercial real estate
- Residential real estate
- Corporate capital assets
- Corporate liquid assets
- Transport vehicles
- Term deposits
- Other including precious metals

Strict appraisal, documentation and, where applicable, registration procedures are in place for all forms of collaterals.

Related party lending. The National Bank of Georgia has strict definitions regarding the category of "related parties". Mainly, these are corporate entities owned/controlled by the Shareholders or the private individuals themselves or immediate family members. Also included are individuals with senior management/authority positions in the Bank. Based on the NBG requirements the largest loan per each related party shall not exceed 5% of the capital of the Bank.

Allowance for loan losses – reserve policy. The Bank establishes an allowance for loan losses that represents its estimate of losses incurred in its risk exposures. In its IFRS financial statements, the Bank utilises the loan loss methodology contained in *IAS 39 Financial Instruments: Recognition of Measurement.*

Maximum exposure to credit risk. The Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum credit risk for off-balance sheet items, mainly letters of credit and guarantees, represents the gross amount of the commitment. The Bank's maximum exposure to off-balance credit risk is disclosed in Note 28 "Contingencies and Commitments".

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 Bank 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.

26 Financial Risk Management (Continued)

Market risk. The Bank 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. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. The Bank is exposed to effects of fluctuation in the prevailing local/foreign currency exchange rates on its financial position. Currency risk is the risk that movements in foreign exchange rates will affect the Bank's income or the value of its portfolios of financial instruments. The main element in the Bank's risk policy regarding foreign currency risk is that there is no conscious effort to take a trading position in any currency. Limited open positions occur as a natural consequence of business operations only. The Bank uses every effort to match its assets and liabilities by currency.

In respect of currency risk, 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 Bank's exposure to foreign currency exchange rate risk at the balance sheet date:

	At 31 December 2008			At 31 December 2007		
In thousands of Georgian Laries	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
Georgian Laries	43,110	40,283	2,827	16,000	-	**16,000**
US Dollars (USD)	87,893	86,058	1,835	-	-	-
Euros	18,568	18,496	72	-	-	-
Pound Sterling (GBR)	353	355	(2)	-	-	-
Russian Roubles (RUR)	160	43	117	-	-	-
CHF	43	4	39	-	-	-
Total	**150,127**	**145,239**	**4,888**	**16,000**	-	**16,000**

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 or loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date relative to the functional currency of the respective Group entities, with all other variables held constant:

	At 31 December 2008	
In thousands of Georgian Lari	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	184	-
US Dollar weakening by 10%	(184)	-
Euro strengthening by 5%	4	-
Euro weakening by 5%	(4)	-
RUR strengthening by 5%	6	-
RUR weakening by 5%	(6)	-
CHF strengthening by 5%	2	-
CHF weakening by 5%	(2)	-
GBR strengthening by 5%	-	-
GBR weakening by 5%	-	-
Total	**196**	-

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

26 Financial Risk Management (Continued)

The Bank's exposure to currency risk at the balance sheet date is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to the average exposure to currency risk during the year, with all other variables held constant:

	At 31 December 2008	
In thousands of Georgian Lari	**Impact on profit or loss**	**Impact on equity**
US Dollar strengthening by 10%	89	-
US Dollar weakening by 10%	(89)	-
Euro strengthening by 5%	9	-
Euro weakening by 5%	(9)	-
RUR strengthening by 5%	3	-
RUR weakening by 5%	(3)	-
CHF strengthening by 5%	1	-
CHF weakening by 5%	(1)	-
GBR strengthening by 5%	1	-
GBR weakening by 5%	(1)	-
Total	**103**	-

Interest rate risk. The Bank 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 daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

At present, the Bank manages its interest rate risk by matching, where possible, its maturity and/or repricing positions. In addition, the Bank's monthly interest margins are continually reviewed in order to reprice its assets when deemed appropriate. Operational procedures set the acceptable interest rate margin at a minimum of 10%. ALCO and the Risk Management Department constantly monitor the maintenance of this margin. ALCO is also responsible for presenting interest rate movement reports and forecasts. At present, through the Bank's matching policies and high interest rate margins, potential interest rate risk is not considered to be significant. All financial assets and liabilities carry fixed rate of interest.

ALCO and Treasury are responsible for managing interest rate risk, the Risk Management Department for controlling and the Executive Board must approve all guidelines and asset/liability repricing.

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

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
31 December 2008					
Total financial assets	38,166	35,979	12,846	63,136	**150,127**
Total financial liabilities	65,769	56,460	11,769	11,241	**145,239**
Net interest sensitivity gap at 31 December 2008	**(27,603)**	**(20,481)**	**1,077**	**51,895**	4,888
31 December 2007					
Total financial assets	-	16,000	-	-	**16,000**
Net interest sensitivity gap at 31 December 2007	-	**16,000**	-	-	**16,000**

26 Financial Risk Management (Continued)

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

In % p.a.	**2008** GEL	USD	Euro
Assets			
Cash and cash equivalents	11.50	9.00	4.50
Loans and advances to customers			
- Corporate loans	20.00	24.00	20.00
- Mortgage loans	-	23.00	-
- Loans to individuals - consumer loans	24.00	24.00	19.50
- Loans to individuals - entrepreneurs	28.00	30.00	-
- Gold pawn loans	-	25.80	-
Other financial assets	-	3	-
Liabilities			
Due to other banks	6.50	8.00	-
Customer accounts			
- current and settlement accounts	6.50	5.00	4.00
- term deposits	12.00	9.80	8.50
Subordinated debt	-	11.00	-

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

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

In thousands of Georgian Lari	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	37,502	96	222	**37,820**
Mandatory reserve deposits with NBG	4,941			**4,941**
Loans and advances to customers	84,728	-	-	**84,728**
Other financial assets	586	188	21,864	**22,638**
Total financial assets	**127,757**	**284**	**22,086**	**150,127**
Non-financial assets	**57,735**	**-**	**-**	**57,735**
Total assets	**185,492**	**284**	**22,086**	**207,862**
Liabilities				
Due to other banks	1,815	-	-	**1,815**
Customer accounts	109,054	713	3,661	**113,428**
Other financial liabilities	487	40	21,078	**21,605**
Subordinated debt	8,391	-	-	**8,391**
Total financial liabilities	**119,747**	**753**	**24,739**	**145,239**
Non-financial liabilities	**1,534**	**-**	**-**	**1,534**
Total liabilities	**121,281**	**753**	**24,739**	**146,773**
Net balance sheet position	64,211	(469)	(2,653)	61,089
Credit related commitments	**26,540**	**-**	**-**	**26,540**

26 Financial Risk Management (Continued)

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining various reports relating to borrowings. The Bank did not have any such significant risk concentrations at 31 December 2008.

Management determines concentration by assessing the quantitative data about its exposure to the risk at the reporting date. This disclosure is based on the information provided internally to key management personnel of the Bank and includes for example disclosure of concentration of risks such as currency, credit and interest.

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations arising from its financial obligations. It refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. The Management Board and Supervisory Board set limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals under both normal and stressed conditions. They also set parameters for the risk diversification of the liability base.

The National Bank of the Georgia has in place minimum levels of liquidity required.

The Bank's liquidity policy is comprised of the following:

- Projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;
- Maintaining a funding plan commensurate with the Bank's strategic goals;
- Maintaining a diverse range of funding sources thereby increasing the Bank's borrowing capacity, domestically as well as from foreign sources;
- Maintaining highly liquid and high-quality assets;
- Adjusting its product base by time bands against available funding sources;
- Daily monitoring of liquidity ratios against regulatory requirements; and
- Constant monitoring of asset and liability structures by time-bands.

Treasury function within the Bank is charged with the following responsibilities:

- Compliance with the liquidity requirements of the National Bank of the Republic of Georgia as well as with the liquidity requirement covenants contained in the agreements with foreign lending sources;
- Daily reports to management, including reporting to management on the forecast levels of cash flows in the main currencies (GEL, USD, EUR), cash positions, balance sheet changes;
- Constantly controlling/monitoring the level of liquid assets;
- Monitoring of deposit and other liability concentrations; and
- Maintaining a plan for the instant increase of cash to provide liquidity under stressed conditions.

ALCO is responsible for ensuring that Treasury properly manages the Bank's liquidity position. The Risk Management Department is responsible for controlling these activities. Decisions on liquidity positions and management are made by the Management Board.

26 Financial Risk Management (Continued)

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The maturity analysis of financial liabilities at 31 December 2008 is as follows:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	1,522	-	-	2,731	-	**4,253**
Customer accounts	63,451	36,939	11,814	8,093	2,284	**122,581**
Subordinated debt	73	364	437	3,495	15,109	**19,478**
Other financial liabilities	1,034	21,031	-	-	-	**22,065**
Gross loan commitments	26,540	-	-	-	-	**26,540**
Total potential future payments for financial obligations	**92,620**	**58,334**	**12,251**	**14,319**	**17,393**	**194,917**

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

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Assets					
Cash and cash equivalents	34,400	3,420	-		**37,820**
Mandatory reserve deposits with NBG	2,778	339	452	1,372	**4,941**
Loans and advances to customers	6,338	22,524	14,874	40,992	**84,728**
Other financial assets	853	21,605	-	180	**22,638**
Total financial assets	**44,369**	**47,888**	**15,326**	**42,544**	**150,127**
Liabilities					
Due to other banks	1,517	-	-	298	**1,815**
Customer accounts	63,144	7,703	10,276	32,305	**113,428**
Other financial liabilities	1,034	20,571	-	-	**21,605**
Subordinated debt	73	352	402	7,564	**8,391**
Total financial liabilities	**65,768**	**28,626**	**10,678**	**40,167**	**145,239**
Net liquidity gap at 31 December 2008	**(21,399)**	**19,262**	**4,648**	**2,377**	**4,888**
Cumulative liquidity gap at 31 December 2008	**(21,399)**	**(2,137)**	**2,511**	**4,888**	

The above analysis is based on expected maturities.

26 Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. 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 Bank 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 Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank 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.

27 Management of Capital

The Bank's objectives when managing capital are to comply with the capital requirements set by the National Bank Georgia, to safeguard the Bank's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 12%. Compliance with capital adequacy ratios set by the National Bank Georgia is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and the Chief Accountant and subsequently submitted to the NBG. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the National Bank of Georgia banks have to: (a) hold the minimum level of share capital of GEL 12,000 thousand (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 8%. The total capital that the Bank manages, which is the same as the amount of capital required for NBG statutory capital adequacy purposes, is GEL 38,562 thousand as of 31 December 2008. Regulatory capital is based on the Bank's reports prepared under the Georgian accounting standards and comprises:

In thousands of Georgian Lari	**2008**
Tier 1 capital	
Share capital	75,000
Additional paid-in capital	(485)
Retained earnings	-
Less: Intangible assets	(31,958)
Total qualifying Tier 1 capital	**42,557**
Tier 2 capital	
Current year loss	(12,386)
Subordinated debt	8,391
Total qualifying Tier 2 capital	**(3,995)**
Total regulatory capital	**38,562**
Risk-weighted assets:	
On-balance sheet	164,146
Off-balance sheet	170
Total risk-weighted assets	**164,130**
Basel ratio	**23%**

The Bank has complied with all externally imposed capital requirements throughout 2008.

28 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. Based on its own estimates and internal professional advice the Bank's Management is of the opinion that no material losses will be incurred in respect of claims and, accordingly, no provision has been made in this set of financial statements.

Compliance with the NBG regulations. The Bank is subject to certain statutory regulations set by the NBG related primarily to its operations. Non-compliance with such regulations may result in negative consequences for the Bank including penalties imposed by the NBG. The Bank was not in breach of some of these regulations as of 31 December 2008 and during the year then ended.

Tax legislation. Georgian tax, currency 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 Bank may be challenged by the relevant regional and state authorities. Recent events within Georgia suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar periods preceding the period of review. Under certain circumstances reviews may cover longer periods. Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2008 no provision for potential tax liabilities has been recorded.

Capital expenditure commitments. At 31 December 2008, the Bank does not have material contractual capital expenditure commitments.

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 Bank 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank 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 Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. 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 and adequate collateral. The Bank 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. Outstanding credit related commitments are as follows:

In thousands of Georgian Lari	**2008**
Commitments to extend credit	274
Undrawn credit lines	26,096
Guarantees issued	170
Total credit related commitments	**26,540**

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. The fair value of credit related commitments was GEL 15 thousand at 31 December 2008 (2007: GEL 0 thousand).

Credit related commitments are denominated in currencies as follows:

28 Contingencies and Commitments (Continued)

In thousands of Georgian Lari	2008
Georgian Lari	24,305
US Dollars	1,203
EUR	1,032
Total	**26,540**

29 Fair Value of Financial Instruments

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.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The estimated fair value of fixed interest rate instruments is 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. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and average rates used were as follows:

In % p.a.	2008
Loans and advances to customers – Note 8	
Corporate loans	21
Loans to individuals - consumer loans	24
Loans to individuals – entrepreneurs	20
Mortgage loans	23
Gold pawn loans	27

Estimated fair values as of 31 December 2008 presented in the following table:

In thousands of Georgian Laris	Carrying value	Fair value
Corporate loans	24,059	23,947
Gold pawn loans	37,170	36,825
Loans to individuals-consumer loans	17,444	17,625
Loans to individuals–entrepreneurs	484	501
Mortgage loans	5,571	5,230
Total	**84,728**	**84,128**

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 15, 16, and 17 for the estimated fair values of due to other banks, customer accounts, and other financial liabilities respectively.

30 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and 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.

All of the Bank's financial liabilities are carried at amortised cost.

Financial instruments are presented in the balance sheet in accordance with their IAS 39 categories.

31 Related Party Transactions

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

At 31 December 2008 and 2007, the outstanding balances with related parties were as follows:

	2008			2007		
In thousands of Georgian Lari	**Shareholders**	**Key management personnel**	**Other related parties**	**Shareholders**	**Key management personnel**	**Other related parties**
Other financial assets	21,605	-	-	16,000	-	-
Customer accounts (contractual interest rate: 2 - 11.5 %)	2,909	365	3,153	-	-	-

The expense items with related parties for 2008 were as follows:

In thousands of Georgian Lari	**Shareholders**	**Key management personnel**	**Other related parties**
Interest expense	138	7	11

Key management compensation is presented below:

	2008	
In thousands of Georgian Lari	**Expense**	**Accrued liability**
Short-term benefits:		
- Salaries	366	-
- Short-term bonuses	14	-
- Benefits in-kind	117	-
Total	**497**	-

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

32 Business Combinations

On 5 March 2008 the Bank acquired 100% control of the share capital of JSC Standard Bank. The acquired subsidiary contributed revenue of GEL 21,109 thousand and loss of GEL 11,431 thousand to the Bank for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, Bank revenue for 2008 would have been GEL 24,812 thousand, and loss for 2008 would have been GEL 11,638 thousand.

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

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

In thousands of Georgian Lari	**Note**	**IFRS carrying amount immediately before business combination**	**Attributed fair value**
Cash and cash equivalents		20,160	20,160
Due from banks		13	13
Loans and advances to customers		67,563	67,563
Investment properties	9	-	5,984
Intangible assets, including customer relations	11	119	13,776
Premises and equipment	12	16,248	12,885
Prepayments		453	453
Other assets		1,000	1,000
Due to banks		(20,248)	(20,248)
Customer accounts		(45,405)	(45,405)
Accruals and deferred income		93	93
Other liabilities		(652)	(652)
Tax liabilities		(280)	(673)
Subordinated debt		(7,784)	(7,784)
Fair value of net assets of subsidiary		**-**	**47,165**
Goodwill arising from the acquisition	10		**20,374**
Total purchase consideration			**67,539**
Less: deferred purchase consideration at fair value	17		(32,539)
Less: cash and cash equivalents of subsidiary acquired			(20,160)
Outflow of cash and cash equivalents on acquisition			**14,840**

The purchase consideration comprises cash and cash equivalents paid of GEL 35,000 thousand and deferred consideration of GEL 35,000 thousand with fair value of GEL 32,539 thousand.

32 Business Combination (Continued)

In accordance with share purchase agreement the consideration should be paid by the buyer as follows:

- First payment will be made in 10 days after signing the agreement, with the amount of 50% of total purchase consideration (GEL 35,000 thousand)

- Second payment will be made immediately after six months after first payment, with the amount of 20% of total purchase consideration (GEL 14,000 thousand).

- Third payment will be made immediately after one year after first payment, with the amount of 30% of total purchase consideration (GEL 21,000 thousand).

The fair values of assets other than premises and equipment and liabilities acquired are based on discounted cash flow models. As of 6 March 2008, premises and equipment were revalued for the purposes of purchase price allocation. The valuation was carried out by an independent firm of valuers, Baker & Tilly Georgia, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

Fair value of leasehold improvements generated by the acquired company since 2006 with the amount of GEL 5,862 thousand was assessed by the management to approximate the carrying value as of 6 March 2008. The assessment was done using depreciated cost method of valuation.

The valuation of identifiable intangible assets was performed by internal specialists of the Bank. Based on the appraisal report the core deposits intangibles were valued at GEL 13,657 thousands. Refer to Note 11.

Goodwill arising in consolidation is recognised by management as an asset, based on the following factors:

- Acquiree has been historically profitable;
- Established customer base and clientile of the acquiree;
- Management plan to further expand in the region including budget for next five years showing rapid growth.

At acquisition goodwill is allocated to the Bank as one cash generating unit since the Bank represents the business continuation of JSC Standard Bank. Refer to Note 10.