CARTU BANK GROUP

Consolidated Financial Statements
For the Year Ended December 31, 2010

CARTU BANK GROUP

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CARTU BANK GROUP

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Closed Joint Stock Company Cartu Bank (the "Bank") and its subsidiaries (the "Group") as at December 31, 2010, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements for the year ended December 31, 2010 were authorised for issue on May 11, 2011 by the Management Board of the Group.

On behalf of the Management Board:

General Director	**Chief Accountant**
George Kvirikashvili	**Manana Nadiradze**
May 11, 2011	*May 11, 2011*
Tbilisi, Georgia	*Tbilisi, Georgia*

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Cartu Bank Group:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Closed Joint Stock Company Cartu Bank (the "Bank") and its subsidiary (collectively – the "Group" of "Cartu Bank Group"), which comprise the consolidated statement of financial position as at December 31, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

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

Deloitte & Touche

May 11, 2011
Tbilisi, Georgia

CARTU BANK GROUP

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

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Interest income	3, 24	63,342	61,892
Interest expense	3, 24	(27,223)	(24,608)
NET INTEREST INCOME BEFORE RECOVERY OF PROVISION/(PROVISION) FOR IMPAIRMENT LOSSES ON INTEREST BEARING FINANCIAL ASSETS		36,119	37,284
Recovery of provision/(provision) for impairment losses on interest bearing assets	4, 24	1,572	(22,393)
Recovery of assets previously written off		2,695	-
NET INTEREST INCOME		40,386	14,891
Net (loss)/gain on financial assets at fair value through profit or loss	5	(42)	1,024
Net gain on foreign exchange operations	6	11,672	7,059
Fee and commission income	7, 24	4,187	4,900
Fee and commission expense	7	(2,125)	(2,365)
Provision for guarantees and other operations	4	(243)	(317)
Other income	8, 24	4,951	3,150
NET NON-INTEREST INCOME		18,400	13,451
OPERATING INCOME		58,786	28,342
OPERATING EXPENSES	9, 24	(17,051)	(14,535)
PROFIT BEFORE INCOME TAX		41,735	13,807
Income tax expense	10	(6,206)	(2,023)
TOTAL COMPREHENSIVE INCOME		35,529	11,784
Attributable to:			
Owners of the parent		35,355	11,987
Non-controlling interest		174	(203)
		35,529	11,784

On behalf of the Management Board:

General Director
George Kvirikashvili

May 11, 2011
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

May 11, 2011
Tbilisi, Georgia

The notes on pages 9-53 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010
(in thousands of Georgian Lari)

	Notes	December 31, 2010	December 31, 2009
ASSETS:			
Cash and balances with the National Bank of Georgia	11	22,555	36,153
Financial assets at fair value through profit or loss	12	2,901	4,241
Due from banks	13	89,278	63,752
Loans to customers	14, 24	408,089	366,898
Investments available-for-sale		245	245
Investments held to maturity	15	18,147	5,968
Property and equipment	16	13,541	13,768
Current income tax assets	10	132	-
Deferred income tax assets	10	-	592
Other assets	17	16,399	11,958
TOTAL ASSETS		571,287	503,575
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	18	66,646	22,874
Customer accounts	19, 24	84,770	110,449
Provisions	4, 24	1,184	962
Current income tax liabilities	10	-	865
Deferred income tax liabilities	10	2,439	-
Other liabilities	20	1,950	1,558
Subordinated debt	21, 24	242,512	230,610
Total liabilities		399,501	367,318
EQUITY:			
Equity attributable to owners of the parent:			
Share capital	22	54,716	54,716
Additional paid in capital		3,817	3,817
Retained earnings		112,578	77,223
Total equity attributable to owners of the parent		171,111	135,756
Non-controlling interest		675	501
Total equity		171,786	136,257
TOTAL LIABILITIES AND EQUITY		571,287	503,575

On behalf of the Management Board:

General Director
George Kvirikashvili

May 11, 2011
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

May 11, 2011
Tbilisi, Georgia

The notes on pages 9-53 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2010

(in thousands of Georgian Lari)

	Notes	Share capital	Additional paid in capital	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
December 31, 2008		54,716	3,817	65,236	123,769	704	124,473
Total comprehensive income for the year		-	-	11,987	11,987	(203)	11,784
December 31, 2009		54,716	3,817	77,223	135,756	501	136,257
Total comprehensive income for the year		-	-	35,355	35,355	174	35,529
December 31, 2010		**54,716**	**3,817**	**112,578**	**171,111**	**675**	**171,786**

On behalf of the Management Board:

General Director
George Kvirikashvili

May 11, 2011
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

May 11, 2011
Tbilisi, Georgia

The notes on pages 9-53 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2010

(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax:		41,735	13,807
Adjustments for:			
(Recovery of provision)/provision for impairment losses on interest bearing assets		(1,572)	22,393
Provision for guarantees and other operations		243	317
(Gain)/loss on foreign exchange operations		(942)	61
Depreciation and amortization expense		1,438	1,269
Change in interest accruals, net		(3,351)	(7,955)
Net loss/(gain) on operations with financial assets designed at fair value through profit or loss		42	(1,024)
Cash inflow from operating activities before changes in operating assets and liabilities		37,593	28,868
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the National Bank of Georgia		(1,161)	5,056
Due from banks		3,633	9,695
Loans to customers		(38,724)	(6,817)
Other assets		(842)	(9,820)
Increase/(decrease) in operating liabilities:			
Due to banks		43,639	(2,384)
Customer accounts		(25,813)	(144,914)
Other liabilities		392	(1,509)
Cash inflow/(outflow) from operating activities before taxation		18,717	(121,825)
Income tax paid		(4,172)	951
Net cash inflow/(outflow) from operating activities		14,545	(120,874)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for property and equipment, and intangible assets		(1,263)	(963)
Proceeds on disposal of property and equipment and intangible assets		83	8
Net proceeds on investments at fair value through profit or loss		1,340	(3,217)
Purchase of investments available-for-sale		-	(100)
Purchase of investments held to maturity		(12,179)	(5,901)
Net cash outflow from investing activities		(12,019)	(10,173)

CARTU BANK GROUP

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

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from subordinated debt		11,877	4,230
Repayment of subordinated debt		-	(1,665)
Net cash inflow from financing activities		11,877	2,565
Effect of exchange rate changes on the balance of cash held in foreign currencies		(3)	(3,399)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		14,403	(128,482)
CASH AND CASH EQUIVALENTS, beginning of the year	11	92,755	224,636
CASH AND CASH EQUIVALENTS, end of the year	11	107,155	92,755

Interest paid and received by the Group during the year ended December 31, 2010 amounted to GEL 26,931 thousand and GEL 59,699 thousand, respectively.

Interest paid and received by the Group during the year ended December 31, 2009 amounted to GEL 23,967 thousand and GEL 53,964 thousand, respectively.

On behalf of the Management Board:

General Director
George Kvirikashvili

May 11, 2011
Tbilisi, Georgia

Chief Accountant
Manana Nadiradze

May 11, 2010
Tbilisi, Georgia

The notes on pages 9-53 form an integral part of these consolidated financial statements.

(in thousands of Georgian Lari)

1. ORGANISATION

Closed Joint Stock Company Cartu Bank (the "Bank") is a joint-stock bank, which was incorporated in Georgia in 1996. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under general license number 229. The Bank's primary business consists of commercial activities, originating loans and guarantees, trading with securities, foreign currencies and taking deposits.

The registered office of the Bank is located on 39a Chavchavadze Avenue, Tbilisi, Georgia.

As at December 31, 2010 the Bank has two branches and three service centers operating in Tbilisi, one service center in Gori, one service center in Telavi and branches in Kutaisi and Batumi.

As at December 31, 2009 the Bank had two branches and three service centers operating in Tbilisi, one service center in Gori and branches in Kutaisi and Batumi.

The Bank is a parent company of a banking group (the "Group"), which consists of the following enterprises consolidated in the financial statements:

		Ownership interest (%)		
Name	Country of operation	2010	2009	Type of operation
Insurance Company Cartu LLC	Georgia	69%	69%	Insurance

Insurance Company Cartu LLC was formed as a limited liability company under the laws of Georgia on September 13, 2001. The company's principal activity is insurance, which is mainly health insurance.

As at December 31, 2010 and 2009, the following shareholders owned the issued shares of the Bank:

Shareholder	**December 31, 2010, %**	**December 31, 2009, %**
First level shareholders:		
JSC Cartu Group (Georgia)	100%	100%
Total	**100%**	**100%**

Ultimate shareholder having control over the Groups operations is Bidzina Ivanishvili.

These consolidated financial statements were authorized for issue on May 11, 2011 by the Management Board of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Other basis of presentation criteria

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue its operations for the foreseeable future. The management and shareholders have the intention to further develop the business of the Group in Georgia both in corporate and retail segments. The Group's management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis, except for the measurement at fair value of certain financial instruments, and the measurement at revalued amounts of repossessed assets as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non–current) is presented in Note 27.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense are not offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entity controlled by the Bank (its subsidiary) made up to December 31 each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Recognition of interest income and expense

Interest income and expense are recognised on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

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

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

Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in profit or loss on expiry.

All other commissions are recognised when services are provided.

Financial instruments

The Group recognises financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting.

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

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ('FVTPL'), investments 'held to maturity', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Investments held-to-maturity are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of investments held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) investments held-to-maturity or (c) financial assets at fair value through profit or loss.

The Group has investment in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets.

AFS equity investment that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost less any identified impairment losses at the end of each reporting period. Where the investment is disposed off or is determined to be impaired the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

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

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

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and receivables

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

Derecognition of financial assets

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

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

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

Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

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

Compound instruments

The components parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual agreement. At the date of issue, the fair value of the liability component is estimated using prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Financial liabilities

Financial liabilities are classified as due to banks, customer accounts, subordinated debt and other financial liabilities.

Financial liabilities, including due to banks and customer accounts, subordinated debt and other liabilities, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

Derecognition of financial liabilities

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

Financial guarantee contracts

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

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

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

Cash and cash equivalents

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

Property and equipment

Initial cost of property and equipment is assessed based on actual expenses for their acquisition that comprise purchase price, including non-refundable purchase taxes and any directly attributed costs of bringing the assets to its working condition and location for intended use. Subsequent to initial recognition property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and construction in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings and other real estate	2%
Furniture and office fixtures	20%
Computer and office equipment	20%
Other	14%-17%
Intangible assets	10%

Freehold land is not depreciated.

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

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives from one to five years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

Impairment of non-financial assets other than goodwill

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

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

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

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

Taxation

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

Current tax

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

Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

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

Operating taxes

Georgia also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of comprehensive income.

Provisions

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

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

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

Contingencies

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

Foreign currencies

In preparing the consolidated financial statements of the Group, transactions in currencies other than the Group's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to construction in progress for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

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

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

Collateral

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

Critical accounting judgments and key sources of estimation uncertainty

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

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

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Financial assets held to maturity

The directors have reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. As at December 31, 2010 and 2009 the carrying amounts of the financial assets held to maturity are GEL 18,147 and GEL 5,968 thousand, respectively. Details of these assets are set out in Note 15.

Key sources of estimation uncertainty

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

Impairment of loans and receivables

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

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

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

As at December 31, 2010 and 2009 the gross loans to customers totalled GEL 445,157 thousand and GEL 405,538 thousand, respectively, and allowance for impairment losses amounted to GEL 37,068 thousand and GEL 38,640 thousand, respectively.

Valuation of financial instruments

As described in Note 25, the Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 25 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Repossessed assets

Repossessed assets representing land and buildings are measured at revalued amounts. The date of the latest appraisal was December 31, 2010. The carrying value of revalued repossessed assets amounted to GEL 13,308 thousand and GEL 9,643 thousand as at December 31, 2010 and 2009, respectively.

Useful lives of property and equipment

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

Adoption of new and revised standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on December 31, 2010. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years. These new and revised standards are:

Amendments to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (as part of Improvements to IFRSs issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements. Disclosures in these consolidated financial statements have not been affected by the above clarification.
Amendments to IFRS 7 "Financial Instruments: Disclosures" (as part of Improvements to IFRSs issued in 2010)	The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.
Amendments to IAS 1 "Presentation of Financial Statements" (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. This amendment has no effect on the amounts reported because the Group has not issued instruments of this nature.
Amendments to IAS 1 "Presentation of Financial Statements" (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after January 1, 2011). The amendments have been applied retrospectively.
Amendments to IAS 7 "Statement of Cash Flows" (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the consolidated statement of financial position can be classified as investing activities in the consolidated statement of cash flows. The application of the amendments to IAS 7 has not resulted in a change in the presentation of cash outflows.

Standards and interpretations in issue and not yet effective

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

- Amendments to IAS 24 "Related Party Disclosures" (as part of Improvements to IFRSs issued in 2009) - The IASB revised IAS 24 in 2009 by (i) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition; and (ii) providing a partial exemption from the disclosure requirements for government-related entities (effective for the annual periods beginning on or after January 1, 2011 with earlier application permitted);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – "Transfers of Financial Assets", effective for annual periods beginning on or after July 1, 2011;
- IFRS 9 (as amended in 2010) "Financial Instruments", effective for annual periods beginning on or after January 1, 2013, with earlier application permitted;
- Amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement", effective for annual periods beginning on or after January 1, 2011;
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", effective for annual periods beginning on or after July 1, 2010;
- Improvements to IFRSs issued in 2010 (except for the amendments to IFRS 3 (2008), effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate.

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

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

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

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

3. NET INTEREST INCOME

	Year ended December 31, 2010	Year ended December 31, 2009
Interest income		
Interest income on financial assets recorded at amortised cost:		
Interest income on impaired financial assets	29,037	35,737
Interest income on unimpaired financial assets	34,305	26,155
Total interest income	**63,342**	**61,892**
Interest income on financial assets recorded at amortised cost comprises:		
Interest on loans to customers	61,073	61,429
Interest on balances due from banks	1,551	396
Interest on investments held to maturity	718	67
Total interest income on financial assets recorded at amortised cost	63,342	61,892
Interest expense		
Interest expense on financial liabilities recorded at amortised cost comprise:		
Interest on subordinated debt	(21,902)	(21,973)
Interest on customer accounts	(3,520)	(2,454)
Interest on due to banks	(1,801)	(181)
Total interest expense on financial liabilities recorded at amortised cost	(27,223)	(24,608)
Net interest income before recovery of provision/(provision) for impairment losses on interest bearing financial assets	**36,119**	**37,284**

4. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans to customers
December 31, 2008	19,866
Additional provisions recognised	22,393
Write-off of assets	(3,619)
December 31, 2009	38,640
Recovery of provisions	(1,572)
December 31, 2010	**37,068**

The movements in other provisions were as follows:

	Other assets	Guarantees	Total
December 31, 2008	19	631	650
(Recovery of provisions)/additional provisions recognised	(14)	331	317
Write-off of assets	(5)	-	(5)
December 31, 2009	-	962	962
Additional provisions recognised	21	222	243
Write-off of assets	(18)	-	(18)
December 31, 2010	**3**	**1,184**	**1,187**

5. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets at fair value through profit or loss comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Net gain on operations with financial assets initially recognized at fair value through profit and loss comprise:		
Realized gain on trading operations	5,542	5,337
Realized loss on trading operations	(5,584)	(4,313)
Total net gain on operations with financial assets designated at fair value through profit or loss	**(42)**	**1,024**

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Dealing, net	10,730	7,120
Translation differences, net	942	(61)
Total net gain on foreign exchange operations	**11,672**	**7,059**

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2010	Year ended December 31, 2009
Fee and commission income:		
Plastic cards operations	1,375	1,252
Settlements	1,233	1,179
Documentary operations	841	1,311
Cash operations	515	558
Foreign exchange operations	10	156
Other	213	444
Total fee and commission income	**4,187**	**4,900**
Fee and commission expense:		
Plastic cards services	(1,496)	(1,675)
Documentary operations	(290)	(417)
Settlements	(250)	(229)
Cash operations	(3)	(5)
Other	(86)	(39)
Total fee and commission expense	**(2,125)**	**(2,365)**

8. OTHER INCOME

Other income comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Fines and penalties received	3,643	1,587
Insurance premiums	987	848
Legal income	78	466
Recovery of assets written-off	68	87
Other	175	162
Total other income	**4,951**	**3,150**

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2010	Year ended December 31, 2009
Staff costs	8,201	6,276
Operating leases	1,824	1,600
Charity and sponsorship	1,773	1,501
Depreciation and amortisation	1,438	1,269
Communication expenses	717	600
Security expenses	514	458
Postal expenses	363	367
Professional services	317	808
Property and equipment maintenance	242	191
Utilities	194	190
Taxes, other than income tax	177	201
Representative expenses	99	79
Advertising expenses	83	75
Business trip expenses	48	42
Training	38	18
Other expenses	1,023	860
Total operating expenses	**17,051**	**14,535**

10. INCOME TAXES

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2010 and 2009 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

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

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

	December 31, 2010	December 31, 2009
Loans to customers	(13,435)	3,642
Property and equipment	(3,607)	(1,494)
Other assets	(581)	300
Provisions for guarantees and other operations	1,358	1,514
Other liabilities	6	(14)
Net deferred tax (liability)/asset at the statutory tax rate (15%)	(2,439)	592
Loss carry forward	-	-
Net deferred tax (liability)/asset	**(2,439)**	**592**

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

	Year ended December 31, 2010	**Year ended December 31, 2009**
Profit before income tax	41,735	13,807
Tax at the statutory tax rate (15%)	6,260	2,071
Permanent differences	(54)	(48)
Income tax expense	**6,206**	**2,023**
Current income tax expense	3,175	2,338
Deferred tax expense/(benefit) recognised in the current year	3,031	(315)
Income tax expense	**6,206**	**2,023**

Deferred income tax (liabilities)/asset	**2010**	**2009**
As at January 1 – deferred tax assets	**592**	**277**
Change in deferred income tax balances recognised in consolidated profit or loss	(3,031)	315
As at December 31- deferred tax (liabilities)/assets	**(2,439)**	**592**

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

	December 31, 2010	**December 31, 2009**
Cash	11,631	9,290
Balances with the NBG	10,924	26,863
Total cash and balances with the NBG	**22,555**	**36,153**

The obligatory minimum reserve deposits with the NBG included in the balances with the NBG are restricted balances of GEL 4,344 thousand and GEL 3,183 thousand, respectively, as at December 31, 2010 and 2009. The Group is required to maintain minimum reserve deposits at the NBG at all times.

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

	December 31, 2010	**December 31, 2009**
Cash and balances with the NBG	22,555	36,153
Due from banks (Note 27)	88,944	59,785
Less minimum reserve deposits with the NBG	(4,344)	(3,183)
Total cash and cash equivalents	**107,155**	**92,755**

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	December 31, 2010	December 31, 2009
Financial assets held for trading:		
Equity securities	2,901	4,241
Total financial assets at fair value through profit or loss	**2,901**	**4,241**

The Group estimates changes in fair value due to credit risk, by estimating the amount of change in the fair value that is not due to changes in market conditions that give rise to market risks.

13. DUE FROM BANKS

Due from banks comprise:

	December 31, 2010	December 31, 2009
Time deposits	67,631	41,862
Correspondent accounts	21,647	21,890
Total due from banks	**89,278**	**63,752**

Included in due from banks is accrued interest in the amount of GEL 54 thousand and GEL 1 thousand as at December 31, 2010 and 2009, respectively.

As at December 31, 2010 and 2009 the Group had balances due from two and three banks, respectively, with individual exposure exceeding 10% of the Group's equity.

As at December 31, 2010 and 2009 included in balances due from banks are guarantee deposits placed by the Group for its operations with plastic cards totalling GEL 334 thousand and GEL 3,149 thousand, respectively.

As at December 31, 2010 and 2009 the maximum credit risk exposure on due from banks amounted to GEL 89,278 thousand and GEL 63,752 thousand, respectively.

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2010	December 31, 2009
Originated loans to customers	428,160	392,131
Accrued interest	16,997	13,407
	445,157	405,538
Less allowance for impairment losses	(37,068)	(38,640)
Total loans to customers	**408,089**	**366,898**

Movements in the allowance for impairment losses for the years ended December 31, 2010 and 2009 are disclosed in Note 4.

The table below summarises carrying value of loans to customers analysed by type of collateral obtained by the Group:

	December 31, 2010	December 31, 2009
Loans collateralized by pledge of real estate, equipment and inventories	373,064	331,209
Loans collateralized by pledge of cash	22,682	24,580
Other collateral	6,185	8,956
Unsecured loans	6,158	2,153
Total loans to customers	**408,089**	**366,898**

	December 31, 2010	December 31, 2009
Analysis by sector:		
Construction	107,646	54,759
Trade and services	159,632	144,876
Manufacturing	59,937	69,214
Individuals	48,106	71,675
Agriculture	14,128	5,980
Transport and communication	3,033	583
Energy	2,870	1,674
Other	12,737	18,137
Total loans to customers	**408,089**	**366,898**

During the years ended December 31, 2010 and 2009 the Group received financial and non-financial assets by taking possession of collateral it held as security. As at December 31, 2010 and 2009 such assets in amount of GEL 13,308 thousand and GEL 9,643 thousand, respectively, are included in other assets of the Group.

Loans to individuals comprise the following products:

	December 31, 2010	December 31, 2009
Consumer loans	21,342	10,675
Mortgage loans	9,886	19,164
Other	16,878	41,836
Total loans to individuals	**48,106**	**71,675**

As at December 31, 2010 and 2009 allowance for impairment losses to individuals amounted to GEL 2,367 thousand and GEL 3,862 thousand, respectively.

As at December 31, 2010 and 2009 the Group granted loans to two and eleven customers, totalling GEL 35,438 thousand and GEL 58,307 thousand, respectively, which individually exceeded 10% of the Group's equity.

As at December 31, 2010 and 2009 a maximum credit risk exposure on loans to customers amounted to GEL 408,089 thousand and GEL 366,898 thousand, respectively.

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

As at December 31, 2010 and 2009 loans to customers included loans totalling GEL 187,704 thousand and GEL 163,053 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

15. INVESTMENTS HELD TO MATURITY

	December 31, 2010		December 31, 2009	
	Nominal annual interest rate	Amount	Nominal annual interest rate	Amount
Deposit certificates of the Ministry of Finance of Georgia	9.00%-9.80%	18,367	3.20%	6,000
Less discount		(220)		(32)
Total investments held to maturity		**18,147**		**5,968**

16. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Buildings and other real estate	Furniture and office fixtures	Computer and office equipment	Leasehold improvements and other	Construction in progress	Total
At cost						
December 31, 2008	4,945	4,128	2,748	1,465	3,812	17,098
Additions	-	87	111	-	692	890
Transfers	-	266	1	283	(550)	-
Disposals	-	(72)	(115)	(14)	(1)	(202)
December 31, 2009	4,945	4,409	2,745	1,734	3,953	17,786
Additions	-	304	272	42	509	1,127
Transfers	1,513	284	7	317	(2,153)	(32)
Disposals	-	(58)	(167)	(18)	-	(243)
December 31, 2010	6,458	4,939	2,857	2,075	2,309	18,638
Accumulated depreciation						
December 31, 2008	300	1,271	1,174	378	-	3,123
Depreciation charge	130	462	357	140	-	1,089
Eliminated on disposals	-	(69)	(111)	(14)	-	(194)
December 31, 2009	430	1,664	1,420	504	-	4,018
Depreciation charge	160	534	346	199	-	1,239
Eliminated on disposals	-	(10)	(138)	(12)	-	(160)
December 31, 2010	590	2,188	1,628	691	-	5,097
Net book value						
As at December 31,	**5,868**	**2,751**	**1,229**	**1,384**	**2,309**	**13,541**
As at December 31, 2009	**4,515**	**2,745**	**1,325**	**1,230**	**3,953**	**13,768**

As at December 31, 2010 and 2009 included in property and equipment were fully depreciated assets totalling GEL 952 thousand and GEL 558 thousand, respectively.

17. OTHER ASSETS

Other assets comprise:

	December 31, 2010	December 31, 2009
Other financial assets:		
Accounts receivable	746	517
Less allowance for impairment of other financial assets	(3)	-
Total other financial assets	743	517
Other non-financial assets:		
Repossessed assets	13,308	9,643
Intangible assets	1,499	1,562
Inventory	396	15
Advances paid	346	144
Tax settlements, other than income tax	77	45
Other	30	32
Total other assets	**16,399**	**11,958**

Movements in the allowance for impairment losses on other assets for the years ended December 31, 2010 and 2009 are disclosed in Note 4.

Repossessed assets as at December 31, 2010 and 2009 include land and buildings in the amount of GEL 13,308 thousand and GEL 9,643 thousand, respectively, which are measured at revalued amounts. The repossessed assets have been revalued by independent appraiser as at December 31, 2010 and 2009. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), direct sales comparison method (comparative approach). For the estimation of the final value, following weights were assigned to the results obtained using different approaches: discounted cash flow method –30-40% and direct sales comparison approach – 60%-70%, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifics of the estimated property, and other.

	Intangible assets
At cost	
December 31, 2008	2,296
Additions	73
Disposals	(10)
December 31, 2009	2,359
Additions	136
Disposals	(210)
December 31, 2010	2,285
Accumulated amortisation	
December 31, 2008	627
Charge for the year	180
Eliminated on disposals	(10)
December 31, 2009	797
Charge for the year	199
Eliminated on disposals	(210)
December 31, 2010	786
Net book value	
December 31, 2010	**1,499**
December 31, 2009	**1,562**

18. DUE TO BANKS

Due to banks comprise:

	December 31, 2010	December 31, 2009
Correspondent accounts of other banks	37,184	225
European Bank of Reconstruction and Development (the “EBRD”)	20,257	13,837
Black Sea Trade and Development Bank (the “BSTDB)	9,205	8,812
Total due to banks	**66,646**	**22,874**

As at December 31, 2010 and 2009 accrued interest expenses included in due to banks amounted to GEL 866 thousand and GEL 733 thousand, respectively.

The Bank is obligated to comply with financial covenants in relation to certain due to banks disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. During the year ended December 31, 2010 the Bank has breached the following ratio set by the EBRD – Ratio of Exposure to any Single Party to Capital. The Bank has obtained a waiver from EBRD for these financial covenants as at December 31, 2010 for the year ending December 31, 2011. As at December 31, 2010 balances due to EBRD amounted to GEL 20,257 thousand that has been reclassified to short-term liabilities.

19. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2010	December 31, 2009
Time deposits	28,656	36,351
Repayable on demand	56,114	74,098
Total customer accounts	**84,770**	**110,449**

As at December 31, 2010 and 2009 accrued interest expenses included in customer accounts amounted to GEL 432 thousand and GEL 298 thousand, respectively.

As at December 31, 2010 and 2009 customer accounts totalling nil and GEL 3,006 thousand, respectively, were held as security against letters of credit and other transaction related contingent obligations issued by the Group. As at December 31, 2010 and 2009 customer accounts totalling GEL 7,017 thousand and GEL 9,010 thousand, respectively, were held as security against guarantees issued by the Group.

As at December 31, 2010 and 2009 customer accounts totalling GEL 24,013 thousand and GEL 60,031 thousand (28% and 54% of total customer accounts), respectively, were due to nine customers, which represents a significant concentration.

	December 31, 2010	December 31, 2009
Analysis by economic sector/customer type:		
Trade and services	39,129	15,030
Individuals	34,407	69,333
Transport and communication	2,686	8,581
Manufacturing	1,853	4,285
Construction	1,469	1,136
Agriculture	649	147
Energy	489	299
Charity	-	502
Other	4,088	11,136
Total customer accounts	**84,770**	**110,449**

20. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2010	December 31, 2009
Other financial liabilities:		
Accounts payable	432	395
Other non-financial liabilities:		
Taxes payable, other than income tax	23	78
Insurance reserves	1,349	996
Other	146	89
Total other liabilities	**1,950**	**1,558**

21. SUBORDINATED DEBT

Subordinated debt comprises:

	Currency	Maturity date	Interest rate %	December 31, 2010	December 31, 2009
Fin Service XXI	USD	9-Feb-12	9%	17,824	16,949
Fin Service XXI	USD	13-Dec-11	9%	17,807	16,933
Fin Service XXI	USD	22-Jun-14	9%	17,741	16,870
Fin Service XXI	USD	1-Nov-14	9%	8,930	8,491
Fin Service XXI	USD	11-May-12	9%	8,908	8,471
Fin Service XXI	USD	12-Jul-14	9%	8,906	8,468
Fin Service XXI	USD	17-Jul-14	9%	8,895	8,458
Fin Service XXI	USD	25-Oct-11	9%	8,877	8,441
Fin Service XXI	USD	27-Nov-11	9%	8,877	8,441
Fin Service XXI	USD	26-Jun-15	9%	8,875	8,439
Fin Service XXI	USD	26-Apr-12	9%	8,875	8,439
Fin Service XXI	USD	28-Jun-14	9%	8,871	8,435
Fin Service XXI	USD	2-Oct-14	9%	8,871	8,435
Fin Service XXI	USD	26-Sep-14	9%	7,987	7,595
Fin Service XXI	USD	24-Aug-14	9%	7,103	6,755
Fin Service XXI	USD	31-Jan-15	9%	7,091	6,743
Fin Service XXI	USD	24-Dec-14	9%	5,328	5,066
Fin Service XXI	USD	28-Dec-11	9%	5,322	5,061
Fin Service XXI	USD	20-Sep-14	9%	4,444	4,230
				179,532	170,720
Inter Consulting Plus Ltd	USD	22-Jun-14	9%	17,741	16,870
Inter Consulting Plus Ltd	USD	17-Oct-25	9%	12,419	11,809
Inter Consulting Plus Ltd	USD	2-Oct-14	9%	8,871	8,436
				39,031	37,115
Georgian Holding Ltd	USD	22-Jun-14	9%	17,741	16,870
Christa Enterprises Ltd	USD	28-Feb-17	9%	6,208	5,905
Total subordinated debt				**242,512**	**230,610**

As at December 31, 2010 and 2009 accrued interest expense included in subordinated debt amounted to GEL 524 thousand and GEL 499 thousand, respectively.

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

22. SHARE CAPITAL

As at December 31, 2010 and 2009 the Bank's share capital is comprised of the following number of shares with a nominal value of GEL 1,000 and one voting right per each:

	Share capital authorized	Share capital authorized but not issued	Paid share capital	Share capital issued
Ordinary shares	80,000	(25,284)	54,716	54,716

The Group's share capital comprises of the following number of shares:

	Share capital Pcs'000
Ordinary shares	
December 31, 2008	54,716
Issue of shares	-
Redemption of shares	-
December 31, 2009	54,716
Issue of shares	-
Redemption of shares	-
December 31, 2010	**54,716**

23. COMMITMENTS AND CONTINGENCIES

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

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

Provision for losses on contingent liabilities totalled GEL 1,184 thousand and GEL 962 thousand as at December 31, 2010 and 2009, respectively.

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

	December 31, 2010	December 31, 2009
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	66,449	46,931
Letters of credit and other transaction related contingent obligations	988	-
Commitments on loans and unused credit lines	26,597	9,130
Total contingent liabilities and credit commitments	**94,034**	**56,061**

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2010 and 2009 such unused credit lines come to GEL 26,597 thousand and GEL 9,130 thousand, respectively.

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at December 31, 2010 and 2009

Operating lease commitments – No material rental commitments were outstanding as at December 31, 2010 and 2009.

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

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

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

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

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

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

The global financial turmoil that has negatively affected Georgia's financial and capital markets in 2008 and 2009 has receded and Georgia's economy returned to growth in 2010. However, significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt Georgia's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

24. TRANSACTIONS WITH RELATED PARTIES

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

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

(b) Associates – enterprises on which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Members of key management personnel of the Group or its parent;

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

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

	December 31, 2010		December 31, 2009	
	Related party balances	**Total category as per the consolidated financial statements caption**	**Related party balances**	**Total category as per the consolidated financial statements caption**
Loans to customers	37,623	445,157	37,885	405,538
- other related parties	37,623		37,885	
Allowance for impairment losses on loans to customers	(854)	(37,068)	(1,505)	(38,640)
- other related parties	(854)		(1,505)	
Customer accounts	6,873	84,770	53,083	110,449
- shareholders	842		42,651	
- key management personnel	62		11	
- other related parties	5,969		10,421	
Subordinated debt	242,512	242,512	230,610	230,610
- shareholders	242,512		230,610	
Provisions	12	1,184	11	962
- other related parties	12		11	
Letters of credit and other transaction related contingent obligations	889	988	-	-
- other related parties	889		-	
Guarantees issued and similar commitments	552	66,449	402	46,931
- other related parties	552		402	

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

	December 31, 2010		December 31, 2009	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Key management personnel compensation:				
- *short-term employee benefits*	722	8,201	556	6,276

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

	Year ended December 31, 2010		Year ended December 31, 2009	
	Related party transactions	**Total category as per the consolidated financial statements caption**	**Related party transactions**	**Total category as per the consolidated financial statements caption**
Interest income	4,865	63,342	3,587	61,892
- *other related parties*	4,865		3,587	
Interest expense	(21,972)	(27,223)	(20,174)	(24,608)
- *shareholders*	-		(1,524)	
- *other related parties*	(21,972)		(18,650)	
Provision for impairment losses on interest bearing assets	(256)	1,572	(475)	(22,393)
- *other related parties*	(256)		(475)	
Fee and commission income	297	4,187	203	4,900
- *shareholders*	3		5	
- *key management*	1		-	
- *other related parties*	293		198	
Other income	-	4,951	51	3,150
- *other related parties*	-		51	

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	December 31, 2010		December 31, 2009	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the NBG	22,555	22,555	36,153	36,153
Due from banks	89,278	88,916	63,752	63,752
Loans to customers	408,089	407,212	366,898	363,718
Investments available-for-sale	245	245	245	245
Investments held to maturity	18,147	18,147	5,968	5,968
Other financial assets	743	743	517	517
Due to banks	66,646	66,429	22,874	22,874
Customer accounts	84,770	84,091	110,449	109,744
Other financial liabilities	432	432	395	395
Subordinated debt	242,512	240,777	230,610	225,271

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment 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. Management has used all available market information in estimating the fair value of financial instruments.

***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. The discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

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 is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

26. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBG in supervising the Bank.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 21, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in statement of changes in equity.

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

The Group's overall capital risk management policy remains unchanged from 2009.

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

	Year ended December 31, 2010	**Year ended December 31, 2009**
Movement in tier 1 capital:		
At January 1	136,257	124,473
Net profit	35,355	11,987
Non-controlling interest	174	(203)
At December 31	**171,786**	**136,257**

	Year ended December 31, 2010	**Year ended December 31, 2009**
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	54,716	54,716
Additional paid in capital	3,817	3,817
Retained earnings	112,578	77,223
Non-controlling interest	675	501
Total qualifying tier 1 capital	171,786	136,257
Subordinated debt (restricted to 50% of Tier 1 capital)	85,893	68,129
Less investments to companies engaged in financial activities	(216)	(216)
Total regulatory capital	**257,463**	**204,170**
Capital ratios:		
Tier 1 capital	32.84%	30.79%
Total capital	49.22%	46.46%

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

As at December 31, 2010 and 2009, the Group included in the computation of Total Capital for capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

27. RISK MANAGEMENT POLICIES

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

- Credit risk
- Liquidity risk
- Market risk

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

Credit risk

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

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

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by a borrower, industry sector are approved quarterly by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored on a regular basis.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees. However, some portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

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

Maximum exposure of credit risk

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

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

	Maximum exposure	
	December 31, 2010	**December 31, 2009**
Financial assets at fair value through profit or loss	2,901	4,241
Due from banks	89,278	63,752
Loans to customers	408,089	366,898
Investments available-for-sale	245	245
Investments held to maturity	18,147	5,968
Other financial assets	743	517
Guarantees issued and similar commitments	66,449	46,931
Commitments on loans and unused credit lines	26,597	9,130

Off – balance sheet risk

The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Credit quality by classes of financial assets

As at December 31, 2010:

	Neither past due nor individually impaired	**Past due but not individually impaired**	**Individually impaired**	**Collectively impaired**	**(Impairment allowance)**	**Total**
Due from banks	89,278	-	-	-	-	89,278
Loans to customers	180,318	8,747	166,474	89,618	(37,068)	408,089
Investments available-for-sale	245	-	-	-	-	245
Investments held to maturity	18,147	-	-	-	-	18,147
Other financial assets	743	-	-	-	-	743

As at December 31, 2009:

	Neither past due nor individually impaired	**Past due but not individually impaired**	**Individually impaired**	**Collectively impaired**	**(Impairment allowance)**	**Total**
Due from banks	63,752	-	-	-	-	63,752
Loans to customers	154,520	11,406	164,075	75,537	(38,640)	366,898
Investments available-for-sale	245	-	-	-	-	245
Investments held to maturity	5,968	-	-	-	-	5,968
Other financial assets	517	-	-	-	-	517

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

As at December 31, 2010 and 2009 the balances with the NBG amounted to GEL 10,924 thousand and GEL 26,863 thousand, respectively. The credit rating of Georgia according to the international rating agencies corresponded to investment level BBB.

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

	AAA	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**Total at December 31, 2010**
Financial assets at fair value through profit or loss	-	-	820	90	-	1,991	2,901
Due from banks	-	16,527	6,301	460	65,990	-	89,278
Loans to customers	-	-	-	-	-	408,089	408,089
Investments available-for-sale	-	-	-	-	-	245	245
Investments held to maturity	-	-	-	18,147	-	-	18,147
Other financial assets	-	-	-	-	-	743	743

As at December 31, 2009:

	AAA	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**Total at December 31, 2009**
Financial assets at fair value through profit or loss	-	-	270	766	770	2,435	4,241
Due from banks	-	63,185	347	220	-	-	63,752
Loans to customers	-	-	-	-	-	366,898	366,898
Investments available-for-sale	-	-	-	-	-	245	245
Investments held to maturity	-	-	-	5,968	-	-	5,968
Other financial assets	-	-	-	-	-	517	517

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

Geographical concentration

The Assets and Liabilities Committee ("ALCO") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in Georgia.

The geographical concentration of assets and liabilities is set out below:

	Georgia	Other non-OECD countries	OECD countries	December 31, 2010 Total
FINANCIAL ASSETS				
Cash and balances with the NBG	22,555	-	-	22,555
Financial assets at fair value through profit or loss	-	265	2,636	2,901
Due from banks	65,986	891	22,401	89,278
Loans to customers	407,612	-	477	408,089
Investments available-for-sale	245	-	-	245
Investments held to maturity	18,147	-	-	18,147
Other financial assets	743	-	-	743
TOTAL FINANCIAL ASSETS	515,288	1,156	25,514	541,958
FINANCIAL LIABILITIES				
Due to banks	37,183	1	29,462	66,646
Customer accounts	84,046	185	539	84,770
Other financial liabilities	432	-	-	432
Subordinated debt	236,303	6,209	-	242,512
TOTAL FINANCIAL LIABILITIES	357,964	6,395	30,001	394,360
NET POSITION	**157,324**	**(5,239)**	**(4,487)**	

	Georgia	Other non-OECD countries	OECD countries	December 31, 2009 Total
FINANCIAL ASSETS				
Cash and balances with the NBG	36,153	-	-	36,153
Financial assets at fair value through profit or loss	-	-	4,241	4,241
Due from banks	565	533	62,654	63,752
Loans to customers	366,551	347	-	366,898
Investments available-for-sale	245	-	-	245
Investments held to maturity	5,968	-	-	5,968
Other financial assets	517	-	-	517
TOTAL FINANCIAL ASSETS	**409,999**	**880**	**66,895**	**477,774**
FINANCIAL LIABILITIES				
Due to banks	185	1	22,688	22,874
Customer accounts	107,836	1,651	962	110,449
Other financial liabilities	395	-	-	395
Subordinated debt	224,705	5,905	-	230,610
TOTAL FINANCIAL LIABILITIES	**333,121**	**7,557**	**23,650**	**364,328**
NET POSITION	**76,878**	**(6,677)**	**43,245**	

Liquidity risk

Liquidity risk management

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

The ALCO controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process.
The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Further is analysis of liquidity and interest rate risks:

(a) term to maturity of financial liabilities, that are not derivatives, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Group will be liable to redeem the liability;

(b) term to maturity of financial liabilities, that are derivatives, calculated for non-discounted cash flows on financial liabilities on the earliest date, when the Group will be liable to redeem the liability; and

(c) estimated term till maturity of financial assets, that are not derivatives, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Group expects that cash flows will be received in the different time.

An analysis of the liquidity by classes of financial assets and financial liabilities, and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2010 Total
FINANCIAL ASSETS						
Due from banks	64,541	2,352	266	-	-	67,159
Loans to customers	17,263	11,395	22,243	65,214	291,974	408,089
Investments held to maturity	6,343	10,338	1,466	-	-	18,147
Total interest bearing financial assets	88,147	24,085	23,975	65,214	291,974	493,395
Cash and balances with the NBG	22,555	-	-	-	-	22,555
Financial assets at fair value through profit or loss	2,901	-	-	-	-	2,901
Due from banks	22,119	-	-	-	-	22,119
Investments available-for-sale	-	-	-	245	-	245
Other financial assets	743	-	-	-	-	743
Total financial assets	136,465	24,085	23,975	65,459	291,974	541,958
FINANCIAL LIABILITIES						
Due to banks	57,317	-	9,205	-	-	66,522
Customer accounts	23,086	4,047	17,933	2,984	283	48,333
Subordinated debt	-	-	40,884	183,000	18,628	242,512
Total interest bearing financial liabilities	80,403	4,047	68,022	185,984	18,911	357,367
Due to banks	124	-	-	-	-	124
Customer accounts	35,268	151	693	325	-	36,437
Other financial liabilities	432	-	-	-	-	432
Total financial liabilities	116,227	4,198	68,715	186,309	18,911	394,360
Interest sensitivity gap	7,744	20,038	(44,047)	(120,770)	273,063	
Cumulative interest sensitivity gap	**7,744**	**27,782**	**(16,265)**	**(137,035)**	**136,028**	
Liquidity gap	20,238	19,887	(44,740)	(120,850)	273,063	
Cumulative liquidity gap	**20,238**	**40,125**	**(4,615)**	**(125,465)**	**147,598**	

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2009 Total
FINANCIAL ASSETS						
Due from banks	36,293	2,420	253	-	-	38,966
Loans to customers	43,306	32,330	77,727	148,130	65,405	366,898
Investments held to maturity	-	5,968	-	-	-	5,968
Total interest bearing financial assets	79,599	40,718	77,980	148,130	65,405	411,832
Cash and balances with the NBG	36,153	-	-	-	-	36,153
Financial assets at fair value through profit or loss	4,241	-	-	-	-	4,241
Due from banks	22,170	-	2,616	-	-	24,786
Investments available-for-sale	-	-	-	245	-	245
Other financial assets	517	-	-	-	-	517
Total financial assets	**142,680**	**40,718**	**80,596**	**148,375**	**65,405**	**477,774**
FINANCIAL LIABILITIES						
Due to banks	-	-	9,700	12,987	-	22,687
Customer accounts	14,991	4,509	16,078	260	-	35,838
Subordinated debt	-	-	-	197,714	32,896	230,610
Total interest bearing financial liabilities	14,991	4,509	25,778	210,961	32,896	289,135
Due to banks	-	-	187	-	-	187
Customer accounts	74,611	-	-	-	-	74,611
Other financial liabilities	395	-	-	-	-	395
Total financial liabilities	**89,997**	**4,509**	**25,965**	**210,961**	**32,896**	**364,328**
Interest sensitivity gap	64,608	36,209	52,202	(62,831)	32,509	
Cumulative interest sensitivity gap	**64,608**	**100,817**	**153,019**	**90,188**	**122,697**	
Liquidity gap	52,683	36,209	54,631	(62,586)	32,509	
Cumulative liquidity gap	**52,683**	**88,892**	**143,523**	**80,937**	**113,446**	

An analysis of liquidity and interest rate risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group. The amounts disclosed in these tables do not correspond to the amounts recorded in the consolidated statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognised in the consolidated statement of financial position under the effective interest rate method.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2010 Total
FINANCIAL LIABILITIES							
Due to banks	1.34%	58,203	98	9,500	-	-	67,801
Customer accounts	9.10%	23,452	4,621	19,379	3,875	412	51,739
Subordinated debt	9.00%	1,667	5,001	55,886	231,970	27,011	321,535
Total interest bearing financial liabilities		83,322	9,720	84,765	235,845	27,423	441,075
Due to banks		124	-	-	-	-	124
Customer accounts		35,268	151	693	325	-	36,437
Other financial liabilities		432	-	-	-	-	432
TOTAL FINANCIAL LIABILITIES		**119,146**	**9,871**	**85,458**	**236,170**	**27,423**	**478,068**

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	December 31, 2009 Total
FINANCIAL LIABILITIES							
Due to banks	7%	-	-	9,879	15,876	-	25,755
Customer accounts	2%	15,014	4,523	16,152	274	-	35,963
Subordinated debt	9%	-	-	-	251,097	41,778	292,875
Total interest bearing financial liabilities		15,014	4,523	26,031	267,247	41,778	354,593
Due to banks		-	-	187	-	-	187
Customer accounts		74,611	-	-	-		74,611
Other financial liabilities		395	-	-	-	-	395
TOTAL FINANCIAL LIABILITIES		**90,020**	**4,523**	**26,218**	**267,247**	**41,778**	**429,786**

Market risk

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

The Group is exposed to interest rate risks as the Group borrows funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALCO also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Supervision conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate sensitivity

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

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

Impact on profit before tax based on asset values as at December 31, 2010 and 2009:

	December 31, 2010		**December 31, 2009**	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
Financial assets:				
Due from banks	1,417	(1,417)	2,065	(2,065)
Loans to customers	8,450	(8,450)	7,947	(7,947)
Investments held to maturity	204	(204)	1	(1)
Financial liabilities:				
Due to banks	(704)	704	(446)	446
Customer accounts	(1,788)	1,788	(2,253)	2,253
Subordinated debt	(4,869)	4,869	(4,569)	4,569
Net impact on profit before tax	**2,710**	**(2,710)**	**2,745**	**(2,745)**

Impact on equity:

	December 31, 2010		**December 31, 2009**	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
Financial assets:				
Due from banks	1,205	(1,205)	1,755	(1,755)
Loans to customers	7,183	(7,183)	6,755	(6,755)
Investments held to maturity	173	(173)	1	(1)
Financial liabilities:				
Due to banks	(599)	599	(379)	379
Customer accounts	(1,520)	1,520	(1,915)	1,915
Subordinated debt	(4,139)	4,139	(3,884)	3,884
Net impact on equity	**2,303**	**(2,303)**	**2,333**	**(2,333)**

Currency risk

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

The ALCO controls currency risk by management of the open currency position on the estimated basis of Georgian Lari devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the National Bank of Georgia.

The Group's open positions by the major currencies in which it holds the assets and liabilities are presented below:

	GEL	**USD** USD 1 = GEL1.7728	**EUR** EUR 1 = GEL 2.3500	**Other currency**	**December 31, 2010 Total**
FINANCIAL ASSETS					
Cash and balances with the NBG	13,347	7,703	1,418	87	22,555
Financial assets at fair value through profit or loss	-	2,696	-	205	2,901
Due from banks	65,792	11,084	12,243	159	89,278
Loans to customers	81,561	316,951	9,577	-	408,089
Investments available-for-sale	245	-	-	-	245
Investments held to maturity	18,147	-	-	-	18,147
Other financial assets	743	-	-	-	743
TOTAL FINANCIAL ASSETS	179,835	338,434	23,238	451	541,958
FINANCIAL LIABILITIES					
Due to banks	55	52,470	14,121	-	66,646
Customer accounts	26,831	47,786	9,842	311	84,770
Other financial liabilities	432	-	-	-	432
Subordinated debt	-	242,512	-	-	242,512
TOTAL FINANCIAL LIABILITIES	27,318	342,768	23,963	311	394,360
OPEN BALANCE SHEET POSITION	**152,517**	**(4,334)**	**(725)**	**140**	

	GEL	USD USD 1 = 1.6858 GEL	EUR EUR 1 = 2.4195 GEL	Other currency	December 31, 2009 Total
FINANCIAL ASSETS					
Cash and balances with the NBG	29,053	5,684	1,371	45	36,153
Financial assets at fair value through profit or loss	-	3,738	261	242	4,241
Due from banks	119	22,522	40,730	381	63,752
Loans to customers	102,207	261,242	3,449	-	366,898
Investments available-for-sale	-	-	3	242	245
Investments held to maturity	5,968	-	-	-	5,968
Other financial assets	517	-	-	-	517
TOTAL FINANCIAL ASSETS	**137,864**	**293,186**	**45,814**	**910**	**477,774**
FINANCIAL LIABILITIES					
Due to banks	64	22,793	17	-	22,874
Customer accounts	18,883	46,653	44,817	96	110,449
Subordinated debt	-	230,610	-	-	230,610
Other financial liabilities	395	-	-	-	395
TOTAL FINANCIAL LIABILITIES	**19,342**	**300,056**	**44,834**	**96**	**364,328**
OPEN BALANCE SHEET POSITION	**118,522**	**(6,870)**	**980**	**814**	

Currency risk sensitivity

The following table details the Group's sensitivity to a 5% increase and decrease in the USD against the GEL. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates.

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

	December 31, 2010		December 31, 2009	
	GEL/USD +5%	GEL/USD -5%	GEL/USD +5%	GEL/USD -5%
Impact on profit or loss before tax	216	(216)	1,017	(1,017)
Impact on equity	184	(184)	864	(864)

Limitations of sensitivity analysis

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

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

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

Price risk

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

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

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.