The International Bank of Azerbaijan - Georgia

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

31 December 2007

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Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of the International Bank of Azerbaijan - Georgia:

1. We have audited the accompanying financial statements of The International Bank of Azerbaijan - Georgia (referred as "the Bank") which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

6. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia branch

Tbilisi, Georgia
13 June 2008

In Georgian Lari	Note	31 December 2007	31 December 2006
ASSETS			
Cash and cash equivalents	7	44,944,320	12,000,000
Mandatory cash balances with the NBG		820,391	-
Loans and advances to customers	8	8,709,970	-
Advance current income tax payment		7,767	-
Premises, equipment and intangible assets	9	7,370,713	-
Other financial assets	10	283,122	-
Other assets	11	67,529	-
TOTAL ASSETS		**62,203,812**	**12,000,000**
LIABILITIES			
Due to other banks		9	-
Customer accounts	12	44,055,182	-
Other financial liabilities	15	116,908	-
Provision for liabilities and charges	14	55,536	-
Other liabilities	16	39,148	-
Subordinated debt	13	6,366,400	-
TOTAL LIABILITIES		**50,633,183**	-
EQUITY			
Share capital	17	12,000,000	12,000,000
Accumulated deficit		(429,371)	-
TOTAL EQUITY		**11,570,629**	**12,000,000**
TOTAL LIABILITIES AND EQUITY		**62,203,812**	**12,000,000**

Approved for issue and signed on behalf of the Board of Directors on 13 June 2008.

Samir Veliyev
General Director

Neli Tsiklauri
Chief Accountant

In Georgian Lari	Note	2007	2006
Interest income	18	567,217	-
Interest expense	18	(294,495)	-
Net interest income		**272,722**	-
Provision for loan impairment		-	-
Net interest income after provision for loan impairment		**272,722**	-
Fee and commission income	19	72,561	-
Fee and commission expense	19	(15,017)	-
Gains less losses from trading in foreign currencies		82,956	-
Foreign exchange translation gains less losses		(59,341)	-
Provision charge for potential penalties	14	(55,536)	-
Administrative and other operating expenses	20	(730,212)	-
Other operating income		2,496	-
Loss before tax		**(429,371)**	-
Income tax (expense)/credit	21	-	-
Loss for the period		**(429,371)**	-
Loss per share of the Bank, basic and diluted (expressed in GEL per share)	22	**35.78**	-

In Georgian Lari	Note	Share capital	Accumulated deficit	Total equity
Balance at 16 November 2006		-	-	-
Share issue	17	12,000,000	-	12,000,000
Balance at 31 December 2006	1	**12,000,000**	**-**	**12,000,000**
Loss for the year		-	**(429,371)**	**(429,371)**
Balance at 31 December 2007		**12,000,000**	**(429,371)**	**11,570,629**

In Georgian Lari	Note	2007	2006
Cash used in operating activities			
Interest received		436,092	-
Interest paid		(294,495)	-
Fees and commissions received	19	72,561	-
Fees and commissions paid	19	(15,017)	-
Income received from trading in foreign currencies		82,956	-
Other operating income received		2,496	-
Administrative and other operating expenses paid		(571,226)	-
Income tax paid		(7,767)	-
Cash used in operating activities before changes in operating assets and liabilities		**(294,400)**	**-**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the National Bank of Georgia		(820,391)	-
Net increase in loans and advances to customers		(8,753,533)	-
Net increase in other financial assets	10	(271,358)	-
Net increase in other assets	11	(67,529)	-
Net increase in due to other banks		9	-
Net increase in customer accounts		45,169,215	-
Net increase in other financial liabilities		36,367	-
Net cash flow provided from operating activities		**34,998,380**	**-**
Cash flows from investing activities			
Acquisition of property and equipment	9	(7,340,943)	-
Acquisition of intangible assets	9	(69,067)	-
Net cash used in investing activities		**(7,410,010)**	**-**
Cash flows from financing activities			
Issue of ordinary shares	17	-	12,000,000
Issue of subordinated debt		6,680,000	-
Net cash provided from financing activities		**6,680,000**	**12,000,000**
Effect of exchange rate changes on cash and cash equivalents		**(1,324,050)**	**-**
Net increase in cash and cash equivalents		**32,944,320**	**12,000,000**
Cash and cash equivalents at the beginning of the year		12,000,000	-
Cash and cash equivalents at the end of the year	7	**44,944,320**	**12,000,000**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2007 for the International Bank of Azerbaijan - Georgia (the "Bank"). The comparative information covers the period between the date of the establishment of the Bank on 16 November 2006 and 31 December 2006. The only transaction during the period 16 November 2006 and 31 December 2006 was the issue and payment of share capital of the total amount of GEL 12,000,000. As such, all comparative figures for the period ended 31 December 2006 are nil, unless otherwise stated.

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

The Bank's immediate parent is the International Bank of Azerbaijan (registered in the Republic of Azerbaijan) that holds 75% of the Bank's ordinary shares as at 31 December 2007. The Bank is ultimately controlled by the Government of the Republic of Azerbaijan.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Georgia. The Bank has operated under a full banking licence issued by the National Bank of Georgia ("NBG") since February 2007.

As at 31 December 2007, the Bank had no branches (31 December 2006: no branches).

Registered address and place of business. The Bank's registered address is:
#1 Leonidze st.
0105
Tbilisi
Georgia

Presentation currency. These financial statements are presented in Georgian Lari ("GEL"). The Georgian Lari ("GEL") is the official currency of Georgia.

The Board of Directors who approved these financial statements has the power to amend the financial statements after issue.

2 Operating Environment of the Bank

The business environment in Georgia during previous periods has showed signs of improvement, but continues to display certain characteristics of an emerging market, including the existence of a currency that is in practice no convertible in most countries outside of Georgia, relatively high inflation and strong economic growth. The tax, customs and accounting legislation of Georgia became more or less settled, though it has been subject to varying interpretations, and existence of ambiguous regulations.

The banking sector, as well as other industrial sectors, in Georgia is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity. Management is unable to predict all developments, which could have an impact on the banking sector and consequently what effect, if any, there could have on the financial position of the Bank.

In particular, the recoverability of the Bank's loans and advances to domestic clients as well as their financial situation and, consequently, their ability to repay the loans depends on the future direction of the economic policy and certain steps, such as diversification of the loan portfolio by economic sectors, regions and types of loans, in order to avoid any potential losses. The future economic direction of Georgia is largely dependent upon the effectiveness of economic financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

In 2007, there has been a sharp rise in foreclosures in the U.S. subprime mortgage market. The effects have spread beyond the U.S. housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivatives markets.

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Bank to obtain new borrowings and re-finance its existing borrowings at terms and conditions that applied to similar transactions in recent periods.

2 Operating Environment of the Bank (Continued)

Debtors of the Bank may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and our assessment of the impairment of financial and non-financial assets. To the extent that information is available management have properly reflected revised estimates of expected future cash flows in our impairment assessments, however management is unable to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets or their increased volatility.

3 Summary of Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below.

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

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

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

3 Summary of Significant Accounting Policies (Continued)

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

Cash and cash equivalents. Cash and cash equivalents are items, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short-term inter-bank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances in foreign currency held with the NBG. Mandatory cash balances in GEL and foreign currency held with the NBG are carried at amortised cost and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

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

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

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

3 Summary of Significant Accounting Policies (Continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management, in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

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

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

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

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Buildings	5%;
Office and computer equipment	25%;
Furniture, fixtures and other equipment	25%;
Motor vehicles	25%; and
Leasehold improvements	over the term of the underlying lease

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

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, eg its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 4 to 5 years.

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

Foreign currency translation. The Bank's functional currency and the Bank's presentation currency is the national currency of Georgia, the Georgian Lari ("GEL").

3 Summary of Significant Accounting Policies (Continued)

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

At 31 December 2007, the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.5916.

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

Staff costs and related contributions. Wages, salaries, contributions to Georgia state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period, in which the associated services are rendered by the employees of the Bank.

Segment reporting. A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from services to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately within these financial statements, on the basis that, a significant majority of the Bank's operations are carried out in Georgia and revenues from other segments are not more than ten percent of total revenues earned by the Bank.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. Management of the Bank regularly reviews the Bank's loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, Management makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

Deferred tax asset. While Management expects that the Bank will have future taxable profits in order to be able to utilise the tax losses carried forward, as a newly formed entity, Management do not yet have convincing evidence that would confirm sufficient taxable profit being available against which value could be obtained for the calculation of deferred tax asset. As such, no deferred tax asset has been recognised. Had Management considered convincing evidence of future taxable profit had been available a potential deferred tax asset of GEL 64,344 would have been recognised in these financial statements.

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

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

5 Adoption of New or Revised Standards and Interpretations

The Bank complies with all Standards and interpretations that were effective as at 31 December 2007.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods and which the Bank has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Bank is currently assessing what impact the standard will have on segment disclosures in the financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets, for which the commencement date for capitalisation is on or after 1 January 2009. The Bank is currently assessing the impact of the amended standard on its financial statements.

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

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

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

6 New Accounting Pronouncements (Continued)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Bank is currently assessing the impact of the amended standard on its financial statements.

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

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and terminological corrections to various standards. The Bank does not expect the amendments to have any material effect on its financial statements, however, is currently considering any impact on its financial statements of ***IAS 40, Investment Property (and consequential amendments to IAS 16)***, where property that is under construction or development for future use as investment property is brought within the scope of the revised IAS 40. Where the fair value model is applied, such property is measured at fair value. Where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which the fair value becomes reliably measurable. The amendment is effective for annual periods beginning on or after 1 January 2009.

Other new standards or interpretations. The Bank has not early adopted the following other new standards, interpretations or exposure drafts:

- IFRIC 11, *IFRS 2 – Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008); or
- *Exposure draft of an improved conceptual framework for financial reporting: Chapter 1: The objective of financial reporting and Chapter 2: Qualitative characteristics and constraints of decision-useful financial reporting information.*

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

7 Cash and Cash Equivalents

In Georgian Lari	31 December 2007	31 December 2006
Cash on hand	81,421	-
Cash balances with the NBG (other than mandatory reserve deposits)	4,685,697	-
Correspondent accounts and overnight placements with other banks		-
- Georgia	65,656	12,000,000
- The Parent Bank, the Republic of Azerbaijan	40,111,546	-
Total cash and cash equivalents	**44,944,320**	**12,000,000**

Overnight placements with other banks include demand deposits of GEL 65,656 placed with a local bank at interest rates of 5% to 6.5% per annum. The cash balance as at 31 December 2006 is the total of the contribution made by the Parent Bank to share capital of the Bank placed on a non-interest bearing correspondent account with a resident bank.

The analysis by credit quality of the cash and cash equivalents at 31 December 2007 is as follows:

In Georgian Lari	Cash on hand	Cash balances with the NBG	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	81,421	-	-	81,421
- Government of the Republic of Georgia	-	4,685,697	-	4,685,697
- Top 10 Georgian banks	-	-	65,656	65,656
- The Parent Bank, the Republic of Azerbaijan	-	-	40,111,546	40,111,546
Total current and not impaired	**81,421**	**4,685,697**	**40,177,202**	**44,944,320**
Total cash and cash equivalents	**81,421**	**4,685,697**	**40,177,202**	**44,944,320**

The rating of issuer default ("RID") of the Parent Bank is "BB+" (Fitch).

The analysis by credit quality of the cash and cash equivalents at 31 December 2006 is as follows:

In Georgian Lari	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired		
- Top 10 Georgian banks	12,000,000	12,000,000
Total current and not impaired	**12,000,000**	**12,000,000**
Total cash and cash equivalents	**12,000,000**	**12,000,000**

The published international rating for the Republic of Georgia is BB- (rating performed by Fitch).

Interest rate analysis of cash and cash equivalents is disclosed in Note 24. The information on related party balances is disclosed in Note 29.

8 Loans and Advances to Customers

In Georgian Lari	31 December 2007
Corporate loans	6,448,265
Loans to individuals – mortgage loans	1,256,372
Loans to individuals – consumer loans	523,697
Loans to individuals – purchase of motor vehicles	261,269
Loans to individuals – entrepreneurs	220,367
Less: Provision for loan impairment	-
Total loans and advances to customers	**8,709,970**

Economic sector risk concentrations within the customer loan portfolio as at 31 December 2007 are as follows:

In Georgian Lari	Amount	%
Retail loans		
- mortgage loans	1,256,372	14.4
- consumer loans	523,697	6.0
- purchase of motor vehicles	261,269	3.0
- entrepreneurs	220,367	2.6
Total retail loans	**2,261,705**	**26.0**
Corporate loans		
Production	2,474,262	28.4
Trade and services	1,380,147	15.8
Construction	199,261	2.3
Other	2,394,595	27.5
Total corporate loans	**6,448,265**	**74.0**
Total loans and advances to customers	**8,709,970**	**100**

At 31 December 2007, the Bank had 12 borrowers, each with an outstanding loan amount above GEL 100,000. The total aggregate amount of these loans was GEL 8,431,430 or 97% of the gross loan portfolio.

To the extent that there was any assessed delay in the repayment of principal on 5% of the total loans and advances to customers, the provision would be approximately GEL 36,291 higher in respect of a one month delay. As the provision as at 31 December 2007 is nil, this is based on there being no delays in the repayment of principal in the portfolio.

Information about collateral at 31 December 2007 is as follows:

In Georgian Lari	Corporate loans	Loans to individuals - consumer loans	Loans to individuals - purchase of motor vehicles	Loans to individuals - entrepreneurs	Loans to individuals-mortgage loans	Total
Unsecured loans	889,884	18,519	33,799	-	-	942,202
Loans collateralised by:						
- residential real estate	-	505,178	-	-	1,256,372	1,761,550
- other real estate	3,084,119	-	-	-	-	3,084,119
- other assets	2,474,262	-	227,470	220,367	-	2,922,099
Total loans and advances to customers	**6,448,265**	**523,697**	**261,269**	**220,367**	**1,256,372**	**8,709,970**

8 Loans and Advances to Customers (Continued)

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

In Georgian Lari	Corporate loans	Loans to individuals - consumer loans	Loans to individuals - purchase of motor vehicles	Loans to individuals - entrepreneurs	Loans to individuals- mortgage loans	Total
Current and not impaired						
Unsecured loans	889,884	18,519	33,799	-	-	942,202
Loans collateralised by:						
- residential real estate	-	505,178	-	-	1,256,372	1,761,550
- other real estate	3,084,119	-	-	-	-	3,084,119
- other assets	2,474,262	-	227,470	220,367	-	2,922,099
Total loans and advances to customers	**6,448,265**	**523,697**	**261,269**	**220,367**	**1,256,372**	**8,709,970**

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement. The Bank's policy is to classify each loan as 'current and not impaired' until a specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Bank considers in order to identify whether a loan is impaired are its overdue status and realisability of related collateral, if any. At 31 December 2007, the Bank did not have any overdue or impaired loans.

The carrying value of each class of loans and advances to customers approximates fair value at 31 December 2007. At 31 December 2007, the estimated fair value of loans and advances to customers was GEL 8,709,970. Refer to Note 27.

The interest rate analysis of loans and advances to customers is disclosed in Note 24. The information on related party balances is disclosed in Note 29.

9 Premises, Equipment and Intangible Assets

In Georgian Lari	Note	Leasehold improvements	Land and buildings	Office and computer equipment	Furniture, fixtures and other	Construction in progress	Total premises and equipment	Intangible assets	Total
Carrying amount at 1 January 2007		-	-	-	-	-	-	-	-
Additions		3,841	6,851,676	90,506	129,750	265,170	7,340,943	69,067	7,410,010
Depreciation and amortisation charge	20	(508)	-	(12,302)	(22,147)	-	(34,957)	(4,340)	(39,297)
Carrying amount at 31 December 2007		**3,333**	**6,851,676**	**78,204**	**107,603**	**265,170**	**7,305,986**	**64,727**	**7,370,713**
Cost at 31 December 2007		3,841	6,851,676	90,506	129,750	265,170	7,340,943	69,067	7,410,010
Accumulated depreciation and amortisation		(508)	-	(12,302)	(22,147)	-	(34,957)	(4,340)	(39,297)
Carrying amount at 31 December 2007		3,333	6,851,676	78,204	107,603	265,170	7,305,986	64,727	7,370,713

9 Premises, Equipment and Intangible Assets (Continued)

Construction in progress consists of the construction and refurbishment of a building. Upon completion in 2008, assets will be transferred to premises and equipment and the building will be used as the main office of the Bank.

10 Other Financial Assets

In Georgian Lari	31 December 2007
Receivables	271,358
Accrued commission on guarantees	11,764
Total other financial assets	**283,122**

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

In Georgian Lari	Receivables	Accrued commission on guarantees	Total
Current and not impaired			
- The Parent Bank	271,358	-	271,358
- Medium size companies	-	11,764	11,764
Total other financial receivables	**271,358**	**11,764**	**283,122**

The carrying value of each class of other financial assets approximates fair value at 31 December 2007. At 31 December 2007, the estimated fair value of other financial assets was GEL 283,122. Refer to Note 27.

The information on related party balances is disclosed in Note 29.

11 Other Assets

In Georgian Lari	31 December 2007
Advances for purchase of furniture and fixtures	66,631
Advances for the purchase of services	632
Other	266
Total other assets	**67,529**
Current	898
Non-current	66,631

12 Customer Accounts

In Georgian Lari	31 December 2007
State and public organisations	
- Current/settlement accounts	1,528,473
Other legal entities	
- Current/settlement accounts	42,409,824
Individuals	
- Current/demand accounts	116,885
Total customer accounts	**44,055,182**

Economic sector concentrations within customer accounts are as follows:

In Georgian Lari	Amount	%
Transportation	38,237,307	86.79
Energy	3,418,756	7.76
Public	1,528,473	3.47
Trade and services	663,859	1.51
Construction	11,429	0.03
Individuals	116,885	0.26
Other	78,473	0.18
Total customer accounts	**44,055,182**	**100.00**

At 31 December 2007, the Bank had 12 customers with balances above GEL 100,000. The aggregate balance of these customers was GEL 43,685,656 or 99% of total customer accounts.

Included within current/settlement accounts of other legal entities is a current account of a local transportation company with a balance of GEL 38,237,308 or 87% of total customer accounts.

The carrying value of each class of customer accounts approximates fair value at 31 December 2007. At 31 December 2007, the estimated fair value of customer accounts was GEL 44,055,182. Refer to Note 27.

The information on related party balances is disclosed in Note 29.

13 Subordinated Debt

In Georgian Lari	31 December 2007
Subordinated debt from the Parent Bank	6,366,400
Total subordinated debt	**6,366,400**

On 29 June 2007, the Bank signed a Subordinated Debt Agreement with the International Bank of Azerbaijan (registered in the Republic of Azerbaijan) for obtaining funds in the amount of USD 4,000,000 to be used for working capital purposes. The principal amount is to be repaid in one installment on 29 June 2013. The subordinated debt carried an interest rate of 10.5% per annum until 17 September 2007, when it was decreased to 9 % per annum for the period subsequent to 17 September 2007. The Bank is obliged to make interest repayments on a quarterly basis.

The above subordinated debt ranks after all other creditors in case of the Bank's liquidation.

The carrying value of subordinated debt approximates fair value at 31 December 2007. At 31 December 2007, the estimated fair value of the subordinated debt was GEL 6,366,400. Refer to Note 27.

The interest rate analysis of the subordinated debt is disclosed in Note 24. The information on related party balances is disclosed in Note 29.

14 Provision for Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In Georgian Lari	Provision for liabilities and charges
Carrying amount at 1 January 2007	-
Additions charged to profit or loss	55,536
Carrying amount at 31 December 2007	**55,536**

In March 2008, the National Bank of Georgia carried out a statutory audit and as a result a penalty of GEL 55,536 was imposed for the Bank's non-compliance with certain NBG requirements in the year ended 31 December 2007. The areas of non-compliance included adhering to the maximum exposure to related parties, whereby the total amount of loans issued to related parties should not exceed 5% of total equity at any time, and a failure to comply with the reporting requirements on the opening of customer accounts by newly incorporated entities, whereby the Bank was expected to provide NBG, on a regular basis, with a list of newly incorporated entities, which opened customer accounts with the Bank. The Bank paid the penalty imposed of GEL 55,536 on 23 March 2008.

15 Other Financial Liabilities

Other financial liabilities comprise the following:

In Georgian Lari	**31 December 2007**
Professional fees payable	80,540
Payables to non resident banks	36,368
Total other financial liabilities	**116,908**

The carrying value of each class of other financial liabilities approximates fair value at 31 December 2007. At 31 December 2007, the estimated fair value of other financial liabilities was GEL 116,908. Refer to Note 27.

16 Other Liabilities

Other liabilities comprise the following:

In Georgian Lari	**31 December 2007**
Property tax payable	39,148
Total other liabilities	**39,148**
Current	39,148
Non-current	-

17 Share Capital

In Georgian Lari except for number of shares	**Number of outstanding shares**	**Ordinary shares**	**Total**
At 16 November 2006	-	-	-
New shares issued	12,000	12,000,000	12,000,000
At 31 December 2006	**12,000**	**12,000,000**	**12,000,000**
New shares issued	-	-	-
At 31 December 2007	**12,000**	**12,000,000**	**12,000,000**

On incorporation, the total par value of the Bank's authorised, issued and registered share capital was GEL 12,000,000. There have been no subsequent changes to the level of share capital in the year ended 31 December 2007.

At 31 December 2007, the International Bank of Azerbaijan owned 75% of the Bank's shares. In addition, the Industrial Bank of Azerbaijan owned 12.5% of the Bank's shares and Mr. Ivane Chkhartishvili owned 12.5% of the Bank's shares.

All ordinary shares have a nominal value of GEL 1,000 per share and rank equally. Each share carries one vote.

18 Interest Income and Expense

In Georgian Lari	2007
Interest income	
Interest income on originated loans and advances to customers	448,326
Interest income on correspondent accounts with other banks	79,270
Other	39,621
Total interest income	**567,217**
Interest expense	
Interest expense on subordinated debt	294,486
Other	9
Total interest expense	**294,495**
Net interest income	**272,722**

19 Fee and Commission Income and Expense

In Georgian Lari	2007
Fee and commission income	
Commission income on guarantees	35,211
Commissions on settlement transactions	19,727
Commission on cash transactions	17,623
Total fee and commission income	**72,561**
Fee and commission expense	
Commissions on settlement transactions	6,533
Commissions on cash collection	3,648
Commissions on guarantees and letters of credit	1,354
Other fees and commissions	3,482
Total fee and commission expense	**15,017**
Net fee and commission income	**57,544**

20 Administrative and Other Operating Expenses

In Georgian Lari	Note	2007
Staff costs		379,861
Professional fees		78,234
Communication expenses		50,120
Rent expenses		40,996
Security expenses		39,523
Depreciation on premises and equipment	9	34,957
Utility expenses		14,051
Publishing and stationary expenses		11,836
Repair and maintenance expenses		8,089
Business trip expense		7,607
Amortisation of intangible assets	9	4,340
Insurance expenses		3,414
Other expenses		57,184
Total administrative and other operating expenses		**730,212**

Included in staff costs are statutory social security contributions of GEL 61,457.

21 Income Taxes

Income tax expense comprises the following:

In Georgian Lari	2007
Current tax	-
Deferred tax (expense)/benefit	-
Income tax credit for the year	-

The income tax rate applicable to the majority of the Bank's income is 20%. A reconciliation between the expected and the actual taxation charge is provided below.

In Georgian Lari	2007
IFRS loss before tax	**(429,371)**
Theoretical tax charge at statutory rate (2007: 20%)	85,874
Effect of changes in tax rates (15% from 1 January 2008)	(21,468)
Tax effect of non deductible expenses	(62)
Unrecognised potential deferred tax asset	(64,344)
Income tax expense for the year	-

The Bank has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of GEL 76,672 (2006: nil) and taxable temporary differences of GEL 12,328 (2006: nil). In accordance with Georgian tax legislation business and capital losses may be carried forward for up to 5 years.

21 Income Taxes (Continued)

The statutory tax rate was changed to 15% effective from 1 January 2008.

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

In Georgian Lari	31 December 2006	Recorded in the income statement	31 December 2007
Tax effect of taxable temporary differences			
Tax losses carried forward	-	76,672	76,672
Accrual of audit fee	-	11,682	11,682
Provision for potential penalties	-	8,330	8,330
Depreciation of premises and equipment	-	(6,568)	(6,568)
Loan impairment provision	-	(25,772)	(25,772)
Gross deferred tax asset	-	**64,344**	**64,344**
Deferred tax asset – not recognised	-	**64,344**	**64,344**

While Management expects that the Bank to have future taxable profits in order to be able to utilise the tax losses carried forward, as a newly formed entity, Management considers that convincing evidence is not yet available that would confirm sufficient taxable profit being available against which value could be obtained for the calculation of deferred tax asset. Refer to Note 4.

22 Loss per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the period.

The Bank had no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In Georgian Lari	Note	2007	2006
Loss for the year attributable to ordinary shareholders		(429,371)	-
Weighted average number of ordinary shares in issue	17	12,000	-
Basic and diluted loss per ordinary share (expressed in GEL per share)		**35.78**	-

23 Segment Analysis

The Bank's primary format for reporting segment information is business segments. The Bank operates only in the Republic of Georgia and, therefore, does not report geographical segments.

Business Segments. The Bank is organised on a basis of two main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

There are no material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation.

Segment information for the main reportable business segments of the Bank for the year ended 31 December 2007 is set out below:

In Georgian Lari	**Retail banking**	**Corporate banking**	**Total**
External revenues	158,667	483,607	642,274
Total revenues	**158,667**	**483,607**	**642,274**
Total revenues comprise:			
- Interest income	140,125	427,092	567,217
- Fee and commission income	17,925	54,636	72,561
- Other operating income	617	1,879	2,496
Total revenues	**158,667**	**483,607**	**642,274**

23 Segment Analysis (Continued)

In Georgian Lari	Retail banking	Corporate banking	Total
Segment result	**(96,363)**	**(293,711)**	**(390,074)**
Unallocated cost			(39,297)
Loss before tax			**(429,371)**
Income tax (expense)/credit			-
Loss for the year			**(429,371)**
Other segment items			
Capital expenditure	(1,847,020)	(5,629,621)	(7,476,641)
Depreciation and amortisation expense	-	-	(39,297)
Other non-cash expenses	(14,660)	(44,681)	(59,341)

The amounts recorded as capital expenditure include additions to fixed assets plus prepayments for the purchase of fixed assets during the year.

Information about segment assets and liabilities of the Bank at 31 December 2007 is given in the following table:

In Georgian Lari	Retail banking	Corporate banking	Total
Total segment assets	**13,457,355**	**41,017,326**	**54,474,681**
Current and deferred tax asset			-
Unallocated assets			7,729,131
Total assets			**62,203,812**
Total segment liabilities	**(12,456,084)**	**(37,965,507)**	**(50,421,591)**
Other unallocated liabilities			(211,592)
Total liabilities			**(50,633,183)**

24 Financial Risk Management

The Bank has exposure to financial risks, which include credit, liquidity, market and operational risks. The taking of risk is integral to the Bank's business. The Bank's risk management function's aim is to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Bank's financial performance.

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

The Bank has established a Credit Committee, which is responsible for approving credit limits for individual borrowers:

- The Parent Bank's credit committee is required to review and approve all amounts above USD 1,000,000. It is also responsible for issuing guidance to the Bank's credit committee in relation to all other loans;

- The Bank's Credit committee reviews and approves all amounts below USD 1,000,000. The Credit Committee meets on a weekly basis.

As of 31 December 2007, the breakdown of the loan portfolio by economic and product sectors is provided in Note 8.

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

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

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

Allowance for loan losses – reserve policy. The Bank establishes an allowance for loan losses that represents its estimate of losses incurred in its risk exposures, and is established in accordance with the reserve policy of the National Bank of Georgia. The categories with reserve requirements are as follows:

Standard loans	2%
Controllable loans	10%
Non standard	30%
Assets-at-risk	50%
Hopeless loans	100%

These categories are strictly defined.

In its IFRS financial statements, the Bank utilises the loan loss methodology contained in *IAS 39 Financial Instruments: Recognition of Measurement.*

24 Financial Risk Management (Continued)

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

The credit risk for off-balance items is measured the same as for on-balance items. The Bank's maximum exposure to off-balance credit risk is reflected in Note 26 "Contingencies and Commitments".

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

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. The goal of the Bank's market risk management is to limit and reduce the amount of possible losses on open market positions that may be incurred by the Bank due to negative changes in currency exchange rates and interest rates. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. Management are currently formalising the level of risk that may be accepted by the Bank as the size of operations grow, prior to the limits being approved by the Board of Directors.

Currency risk. In respect of currency risk, the Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2007:

In Georgian Lari	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
GEL	7,524,838	3,480,969	4,043,869
USD	47,127,751	46,887,518	240,233
EURO	105,214	170,012	(64,798)
Total	**54,757,803**	**50,538,499**	**4,219,304**

As at 31 December 2006, the Bank's all monetary financial assets of GEL 12,000,000 were denominated in GEL, while the Bank did not have any monetary financial liabilities at the balance sheet date.

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

The Bank has procedures in place to ensure compliance with the requirements of the National Bank of Georgia. These include:

- Ensuring and monitoring that the open currency positions is below the limit is set by the National Bank of Georgia that is 20% of the fixed supervisory capital;
- Calculating the currency risk limits during the working day as well as at the end of each day; and
- When the open currency positions are misbalanced, the Bank is liable to immediately proceed on operations that will get the open currency positions back to balance. These actions are instigated by Management as required.

The Bank has extended loans and advances denominated in foreign currencies. Depending on the revenue stream and cost structure of the borrower, the possible appreciation of the currencies in which loans and advances have been extended against Georgian Lari may adversely affect the borrower's repayment ability and therefore increase the potential of future loan losses.

24 Financial Risk Management (Continued)

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

In Georgian Lari	At 31 December 2007 Impact on profit or loss
US Dollars strengthening by 10%	19,219
US Dollars weakening by 10%	(19,219)
Euro strengthening by 5%	(2,592)
Euro weakening by 5%	2,592

Other than as a result of any impact on the Bank's profit or loss, there is no other impact on the Bank's equity as a result of such changes in exchange rates.

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

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
31 December 2007						
Total financial assets	47,057,079	836,618	106,301	6,757,805	-	54,757,803
Total financial liabilities	44,172,099	-	-	6,366,400	-	50,538,499
Net interest sensitivity gap at 31 December 2007	**2,884,980**	**836,618**	**106,301**	**391,405**	**-**	**4,219,304**

As at 31 December 2006, the Bank's all financial assets of GEL 12,000,000 were categorised as "demand and less than 1 month" for the purposes of the above table, while the Bank did not have any financial liabilities at the balance sheet date.

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

In % p.a.	USD	GEL	EUR
Assets			
Cash and cash equivalents	5.0	6.5	2.5
Loans and advances to customers-corporate	14.0	16.0	-
Loans and advances to customers-retail	18.0	17.5	-
Liabilities			
Subordinated debt	9.0	-	-

As at 31 December 2006, the Bank's all financial assets of GEL 12,000,000 were categorised as "cash and cash equivalents" with no interest for the purposes of the above table, while the Bank did not have any financial liabilities at the balance sheet date.

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

24 Financial Risk Management (Continued)

All of the Bank's instruments carry a fixed rate of interest and accordingly the Bank has not included disclosure of any sensitivity of profit to changes in interest rates for the year.

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2007 is set out below:

In Georgian Lari	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	4,832,774	-	40,111,546	44,944,320
Mandatory cash balances with the NBG	820,391	-	-	820,391
Loans and advances to customers	8,709,970	-	-	8,709,970
Other financial assets	11,764	-	271,358	283,122
Total financial assets	**14,374,899**	**-**	**40,382,904**	**54,757,803**
Non-financial assets	**7,510,353**	**-**	**-**	**7,510,353**
Total assets	**21,885,252**	**-**	**40,382,904**	**62,203,812**
Liabilities				
Due to other banks	-	-	9	9
Customer accounts	44,055,182	-	-	44,055,182
Subordinated debt	-	-	6,366,400	6,366,400
Other financial liabilities	80,540	-	36,368	116,908
Total financial liabilities	**44,135,722**	**-**	**6,402,777**	**50,538,499**
Non-financial liabilities	**94,684**	**-**	**-**	**94,684**
Total liabilities	**44,230,406**	**-**	**6,402,777**	**50,633,183**
Net balance sheet position	**(22,345,154)**	**-**	**33,980,127**	**11,570,629**
Credit related commitments	**1,827,535**	**-**	**-**	**1,827,535**

As at 31 December 2006, the Bank's all financial assets of GEL 12,000,000 were concentrated in Georgia for the purposes of the above table, while the Bank did not have any financial liabilities at the balance sheet date.

Assets, liabilities and credit related commitments have generally been based on the country, in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country, in which they are physically held.

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining various reports relating to borrowings. The Bank did not have any such significant risk concentrations at 31 December 2007.

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

24 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from customer accounts, guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by of the Asset/Liability Committee of the Bank.

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

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a monthly basis in accordance with the requirement of the National Bank of Georgia. The ratio that is monitored is the liquidity ratio, which is calculated as the ratio of highly liquid assets to liabilities payable on demand (including off balance sheet liabilities with maturity of less than six month). The ratio was 86.6% as at 31 December 2007.

According to the instruction set by the NBG, the Bank calculates instant liquidity as a ratio of daily average liquid assets to daily average liquid liabilities. This ratio is calculated based on balances derived from statutory financial statements of the Bank.

The National Bank of Georgia has in place minimum levels of liquidity required. As of 31 December 2007, the Bank was in compliance with this requirement.

The table below shows liabilities at 31 December 2007 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments.

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

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

In Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	9	-	-	-	-	9
Customer accounts	44,055,182	-	-	-	-	44,055,182
Subordinated debt	-	286,488	286,488	2,291,904	6,652,888	9,517,768
Other financial liabilities	116,908	-	-	-	-	116,908
Gross loan commitments – undrawn credit lines	1,000,000	-	-	-	-	1,000,000
Total potential future payments for financial obligations	**45,172,099**	**286,488**	**286,488**	**2,291,904**	**6,652,888**	**54,689,867**

24 Financial Risk Management (Continued)

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2007:

In Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash and cash equivalents	44,944,320	-	-	-	44,944,320
Mandatory cash balances with the NBG	820,391	-	-	-	820,391
Loans and advances to customers	889,885	837,906	106,963	6,875,216	8,709,970
Other financial assets	283,122	-	-	-	283,122
Total financial assets	**46,937,718**	**837,906**	**106,963**	**6,875,216**	**54,757,803**
Liabilities					
Due to other banks	9	-	-	-	9
Customer accounts	44,055,182	-	-	-	44,055,182
Subordinated debt	-	-	-	6,366,400	6,366,400
Other financial liabilities	116,908	-	-	-	116,908
Total financial liabilities	**44,172,099**	**-**	**-**	**6,366,400**	**50,538,499**
Net liquidity surplus at 31 December 2007	**2,765,619**	**837,906**	**106,963**	**508,816**	**4,219,304**
Cumulative liquidity surplus at 31 December 2007	**2,765,619**	**3,603,525**	**3,710,488**	**4,219,304**	**-**

As at 31 December 2006, the Bank's all financial assets of GEL 12,000,000 were categorised as "demand and less than 1 month" for the purposes of the above table, while the Bank did not have any financial liabilities at the balance sheet date.

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

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

25 Management of Capital

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

Under the current capital requirements set by the National Bank of Georgia banks have to: (a) hold the minimum level of share capital of GEL 12,000,000 (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 8%. The total capital that the Bank manages, which is the same as the amount of capital required for NBG statutory capital adequacy purposes, is GEL 17,267,907 as at 31 December 2007.

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

In Georgian Lari	**31 December 2007**
Tier 1 capital	
Share capital	12,000,000
Retained earnings	-
Less: intangible assets	(64,749)
Total tier 1 capital after deductions	**11,935,251**
Tier 2 capital	
Current year loss	(806,781)
Reserves	171,812
Subordinated debt	5,967,625
Total tier 2 capital	**5,332,656**
Total regulatory capital	**17,267,907**
Risk-weighted assets:	
On-balance sheet	42,468,928
Off-balance sheet	827,535
Total risk-weighted assets	**43,296,463**

	31 December 2007
Core capital adequacy ratio (Tier 1)	27.57%
Total capital adequacy ratio (Tier 1 and Tier 2)	39.88%

Except as detailed in Note 14, Management considers that the Bank has complied with the statutory capital adequacy ratio requirements and also all other externally imposed capital requirements throughout 2007.

26 Contingencies and Commitments

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

Compliance with the NBG regulations. The Bank is subject to certain statutory regulations set by the NBG related primarily to its operations. Non-compliance with such regulations may result in negative consequences for the Bank including penalties imposed by the NBG. The Bank was in breach of some of these regulations as at 31 December 2007 and during the year then ended. Details of those breaches and respective provision for liabilities and charges recorded are disclosed in Note 14.

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and state authorities. Recent events within Georgia suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar periods preceding the period of review. Under certain circumstances reviews may cover longer periods. Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2007 no provision for potential tax liabilities has been recorded.

Capital expenditure commitments. At 31 December 2007, the Bank does not have material contractual capital expenditure commitments.

Operating lease commitments. The Bank has operating leases which may be cancelled subject to a certain minimum notice period. The future minimum lease payments under operating leases until the end of the notice period are as follows:

In Georgian Lari	**31 December 2007**
Not later than 1 year	20,000
Total operating lease commitments	**20,000**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

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

	31 December 2007	
In Georgian Lari	**Outstanding amount**	**Fair value**
Cancellable undrawn credit lines	1,000,000	-
Letters of guarantee	827,535	20,390
Total credit related commitments	**1,827,535**	**20,390**

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was GEL 20,390 at 31 December 2007. Credit related commitments are denominated in Georgian Lari.

27 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

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

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. 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 and were as follows:

In Georgian Lari	**2007**
Loans and advances to customers – Note 8	
Corporate loans	10 % to 18 % p.a.
Loans to individuals – consumer loans	18 % to 18 % p.a.
Loans to individuals – purchase of motor vehicles	18 % to 28 % p.a.
Loans to individuals – entrepreneurs	16 % to 18 % p.a.
Loans to individuals – mortgage loans	10 % to 18 % p.a.

Refer to Note 8 for the estimated fair values of loans and advances to customers.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to respective notes for the estimated fair values of customer accounts, subordinated debt, and other financial liabilities. Discount rate used was consistent with the Bank's credit risk and also depend on currency and maturity of the instrument and ranged from 9 % p.a. to 10 % p.a.

28 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. At 31 December 2007, all financial assets of the Bank are categorised as loans and receivables (31 December 2006: all financial assets are categorised as loans and receivables).

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

29 Related Party Transactions

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

The Parent Bank is a related party of the Bank and transactions and balances with the Parent Bank are set out in the tables below. In addition, transactions with parties, over which the Parent Bank has significant influence, are set out in the "Related parties of the Parent Bank" column in the table below.

In addition, for entities that other shareholders of the Bank (not including the Parent Bank) have significant influence over, these transactions are disclosed as "other parties".

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

In Georgian Lari	**Parent Bank**	**Related parties of the Parent Bank**	**Other parties**
Nostro accounts (non interest bearing)	40,111,546	-	-
Subordinated debt (contractual interest rate: 2007: 10.5% - 9% p.a.)	6,366,400	-	-
Gross amount of loans and advances to customers (contractual interest rate: 2007: 12%-18% p.a.)	-	779,884	2,394,595
Customer accounts:			
Current/settlements accounts (non interest bearing)	-	2,260,068	-
Other financial assets:			
- Receivable from the Parent Bank	271,358	-	-
Other liabilities:			
- Payable to the Parent Bank	36,368	-	-

The income and expense items with related parties for the year ended 31 December 2007 were as follows:

In Georgian Lari	**Parent Bank**	**Related parties of the Parent Bank**	**Other parties**
Interest income on originated loans and advances to customers	-	134,889	54,423
Interest expense on subordinated debt	294,486	-	-

During the year ended 31 December 2007, the remuneration of key management personnel was GEL 172,199 and comprised salaries, discretionary bonuses, social taxes, and other short-term benefits.

30 Subsequent Events

In March 2008, the National Bank of Georgia carried out a statutory audit and as a result a penalty of GEL 55,536 was imposed for the Bank's non-compliance with certain NBG requirements. The areas of non-compliance included adhering to the maximum exposure to related parties, whereby the total amount of loans issued to related parties shall not exceed 5% of total equity at any time, and a failure to comply with the reporting requirements on the opening of customer accounts by newly incorporated entities, whereby the Bank was expected to provide NBG, on a regular basis, with a list of newly incorporated entities which opened customer accounts with the Bank. Refer to Note 14.