PEOPLE'S BANK OF GEORGIA GROUP

Consolidated Financial Statements
For the Year Ended 31 December 2007

PEOPLE'S BANK OF GEORGIA GROUP

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company "People's Bank of Georgia" (the "Bank") and its subsidiaries (the "Group" or "People's Bank of Georgia Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2007, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2007 were authorized for issue on 15 September 2008 by the Management Board.

On behalf of the Management Board:

Chairman of the Management Board	Chief Accountant
Karlo Goginava	Tamar Kasareli
15 September 2008	*15 September 2008*

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of People's Bank of Georgia Group:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Joint Stock Company "People's Bank of Georgia" and its subsidiaries (together the "Group" or "People's Bank of Georgia Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statements of changes in equity and 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

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 4, the financial statements for the year ended 31 December 2006 have been restated.

Deloitte & Touche

15 September 2008

PEOPLE'S BANK OF GEORGIA GROUP

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(in Georgian Lari and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006 (restated)
Interest income	5,24	15,430	6,037
Interest expense	5,24	(4,553)	(806)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		10,877	5,231
Provision for impairment losses on interest bearing assets	6,24	(8,426)	(1,274)
NET INTEREST INCOME		2,451	3,957
Net gain on foreign exchange operations	7	1,495	752
Fee and commission income	8	28,178	20,685
Fee and commission expense	8	(788)	(839)
Gain on the purchase of subsidiary		-	391
Other income	9	10,092	2,327
NET NON-INTEREST INCOME		38,977	23,316
OPERATING INCOME		41,428	27,273
OPERATING EXPENSES	10,24	(38,799)	(24,020)
Provision for impairment losses on other transactions	6	(352)	(516)
Loss from associate	15	(9)	-
PROFIT BEFORE INCOME TAX		2,268	2,737
Income tax benefit/(expense)	11	176	(866)
NET PROFIT		2,444	1,871
Attributable to:			
Equity holders of the parent		2,290	1,888
Minority interest		154	(17)
		2,444	1,871

On behalf of the Management Board:

Chairman of the Management Board
Karlo Goginava

15 September 2008

Chief Accountant
Tamar Kasareli

9 September 2008

The notes on pages 9-44 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007
(in Georgia Lari and in thousands)

	Notes	31 December 2007	31 December 2006 (restated)
ASSETS:			
Cash and balances with the National Bank of Georgia	12	28,049	21,505
Due from banks	13	24,184	14,757
Loans to customers	14,24	120,457	41,801
Investments available-for-sale		871	44
Investments in associates	15	789	-
Property, plant and equipment	16	93,300	43,343
Current income tax assets		636	653
Other assets	17	21,419	5,279
TOTAL ASSETS		289,705	127,382
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	18,24	2,977	9,295
Customer accounts	19	207,887	80,433
Provisions	22	146	-
Current income tax liabilities		1,294	-
Deferred income tax liabilities	11	8,807	6,322
Dividends payable		-	1,861
Other liabilities	20	9,006	4,235
Total liabilities		230,117	102,146
EQUITY:			
Equity attributable to equity holders of the parent:			
Share capital	21	15,021	12,000
Share premium		8,200	-
Property, plant and equipment revaluation reserve		36,556	14,046
Accumulated deficit		(369)	(1,302)
Total equity attributable to equity holders of the parent		59,408	24,744
Minority interest		180	492
Total equity		59,588	25,236
TOTAL LIABILITIES AND EQUITY		289,705	127,382

On behalf of the Management Board:

Chairman of the Management Board
Karlo Goginava

15 September 2008

Chief Accountant
Tamar Kasareli

15 September 2008

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PEOPLE'S BANK OF GEORGIA GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

(in Georgian Lari and in thousands)

	Note	Share capital	Treasury shares	Share premium	Property, plant and equipment revaluation reserve	Retained earnings/ (Accumulated deficit)	Total equity attributable to equity holders of the parent	Minority interest	Total equity
31 December 2005		**10,000**	-	-	**654**	**1,711**	**12,365**	**671**	**13,036**
Share capital increase	21	2,000	-	-	-	-	2,000	-	2,000
Gain on revaluation of buildings, net of tax GEL 3,365 thousand	16	-	-	-	13,392	-	13,392	-	13,392
Dividends declared		-	-	-	-	(2,222)	(2,222)	-	(2,222)
Share purchase		-	-	-	-	-	-	(162)	(162)
Net profit/(loss)		-	-	-	-	1,070	1,070	(17)	1,053
31 December 2006 (as previously reported)		**12,000**	-	-	**14,046**	**559**	**26,605**	**492**	**27,097**
To adjust the retained earnings by the amount of paid dividends previously reported as salary		-	-	-	-	(818)	(818)	-	(818)
To adjust the net profit by the amount of paid dividends previously reported as salary		-	-	-	-	818	818	-	818
To adjust the retained earnings for the amount of unrecorded dividends payable		-	-	-	-	(1,861)	(1,861)	-	(1,861)
31 December 2006 (restated)		**12,000**	-	-	**14,046**	**(1,302)**	**24,744**	**492**	**25,236**
Share capital increase	21	3,521	-	10,130	-	-	13,651	-	13,651
Gain on revaluation of buildings, net of tax GEL 3,972 thousand and revaluation increase of GEL 362 thousand recognized in income statement reversing a revaluation decrease of the same buildings previously recognized in income statement, and eliminated depreciation of GEL 1,522 thousand	16	-	-	-	22,510	-	22,510	(466)	22,044
Dividends declared		-	-	-	-	(1,357)	(1,357)	-	(1,357)
Purchase of treasury shares		-	(500)	(1,930)	-	-	(2,430)	-	(2,430)
Net profit		-	-	-	-	2,290	2,290	154	2,444
31 December 2007		**15,521**	**(500)**	**8,200**	**36,556**	**(369)**	**59,408**	**180**	**59,588**

On behalf of the Management Board:

Chairman of the Management Board
Karlo Goginava

15 September 2008

Chief Accountant
Tamar Kasareli

15 September 2008

The notes on pages 9-44 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007
(in Georgia Lari and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		2,268	2,737
Adjustments for:			
Provision for impairment losses on interest bearing assets		8,426	1,274
Unrealized gain aroused from revaluation of previously down-value buildings		(361)	-
Provision for impairment losses on other transactions		352	516
Depreciation and amortization expense		3,291	1,665
Net unrealized loss arising from changes in foreign currency exchange rates		80	23
Gain on purchase of subsidiary		-	(391)
Dividend income		235	(296)
Cash flows from operating activities before changes in operating assets and liabilities		14,291	5,528
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of Georgia		(2,000)	(4,478)
Due from banks		(9,427)	4,588
Loans to customers		(85,190)	(22,137)
Other assets		(15,427)	(141)
Increase/(decrease) in operating liabilities			
Due to banks		(6,318)	(4,816)
Customer accounts		127,454	30,802
Other liabilities		4,764	(414)
Cash inflow from operating activities before taxation		28,147	8,932
Income tax paid		-	(1,130)
Net cash inflow from operating activities		28,147	7,802
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(26,217)	(7,896)
Proceeds on sale of property, plant and equipment		60	26
Purchase of intangible assets		(1,148)	(1,344)
Purchase of investments available-for-sale		(827)	(4)
Purchase of investments held to maturity		-	1,019
Purchase of shares of minority interest		-	(162)
Acquisition of investments in associates		(798)	-
Share in losses of associate		10	-
Net cash outflow from investing activities		(28,920)	(8,361)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007

(in Georgia Lari and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		3,521	2,000
Share premium		10,130	-
Purchase of treasury shares		(2,430)	-
Dividends paid		(3,218)	(3,040)
Net cash inflow/(outflow) from financing activities		8,003	(1,040)
Effect of changes in foreign exchange rate on cash and cash equivalents		121	(23)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		7,351	(1,622)
CASH AND CASH EQUIVALENTS, beginning of year	12	18,370	19,992
CASH AND CASH EQUIVALENTS, end of year	12	25,721	18,370

On behalf of the Management Board:

Chairman of the Management Board
Karlo Goginava

15 September 2008

Chief Accountant
Tamar Kasareli

15 September 2008

The notes on pages 9-44 form an integral part of these consolidated financial statements.

1. ORGANISATION

Joint Stock Company "People's Bank of Georgia" (the "Bank") was incorporated in Georgia. The Bank is the legal successor of State owned bank "Agromretsvbank". By the Decree of the Cabinet of Ministers of Georgia number 288, dated 14 April 1993, and the Ordinance of the President of Georgia number 178, dated 29 May 1994 the organizational forms of state owned banks and enterprises were transformed into Joint Stock Companies. On 3 September 2002 in accordance with the above mentioned Ordinance, based on the decision of a shareholders' meeting of JSC "Agromretsvbank", and pursuant to the Resolution number 4/5-1 of the Tbilisi Mtatsminda-Krtsanisi District Court, dated 7 October 2002, the name, legal address, authorized capital, and members of the Board of Directors and Supervisory Board of JSC "Agromretsvbank" were changed. In terms of the above mentioned Resolution of the Court, the legal name of JSC "Agromretsvbank" has changed to JSC "People's Bank of Georgia".

The registered address of the Bank is 74 Ilia Chavchavadze Avenue, 0162 Tbilisi, Georgia.

The Bank's primary business consists of making payments and money transfers, commercial activities, trading with foreign currencies, originating loans and issuing guarantees.

As at 31 December 2007 the Bank had 182 branches, outlets and pavilions operating in Georgia.

The number of employees of the Bank as at 31 December 2007 and 2006 was 4,121 and 3,687 respectively.

As at 31 December 2007 and 2006 the share capital was distributed among following shareholders:

Shareholder	**2007 Ownership interest, %**	**2006 Ownership interest, %**
Jincharadze Irina	25%	19%
Starcode Resources LLC (United Kingdom)	21%	24%
Kovalenko Elena	21%	24%
Goguadze George	9%	6%
Agureva Anna	8%	9%
Marshania Tamar	6%	7%
Marshania Gaioz	2%	2%
Other shareholders (individually hold less than 1%)	8%	9%
Total	**100%**	**100%**

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

Name	Country of incorporation	The Group ownership interest 2007	The Group ownership interest 2006	Type of operation
JSC Peoples Insurance Company	Georgia	100%	100%	Insurance
LLC Real Estate Development	Georgia	100%	100%	Real Estate
LLC Peoples Post	Georgia	100%	100%	Postal
LLC Public Investment Management	Georgia	100%	100%	Brokerage
JSC Sakkalakmshenproekti	Georgia	98%	98%	Architectural design services and renting

JSC People's Insurance Company was registered on 4 February 2004. The Company's principal activity is providing insurance services. The company holds insurance licenses N 004/2 dated 13 October 2006 and life insurance license N 002/1 dated 13 October 2006 granted by Insurance Regulatory Department of Georgia. The insurance company was bought by the Bank in the year 2005.

LLC Real Estate Development was established on 18 November 2005 by the Tax Inspectorate of Tbilisi, Georgia, order number 1422/006. The company is owned by the Bank from the date of incorporation. The principal activity is leasing of commercial space on bus stations.

LLC People's Post was established on 27 September 2005. The company is owned by the Bank from the date of incorporation. The principal activity is providing postal and courier services.

LLC Public Investment Management was registered on 31 July 2006 by the Tax Inspectorate of Tbilisi, Georgia, order number 205168833. The company holds brokerage license number 129 dated 13 September 2006 granted by Securities National Commission of Georgia. The company is owned by the Bank from the date of incorporation.

JSC Sakkalakmshenproekti was bought by the Group in the year 2005. The Company's principal activity is providing architectural design and other related services.

These consolidated financial statements were authorized for issue by the Management Board on 15 September 2008.

2. BASIS OF PRESENTATION

Accounting basis

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

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of buildings at revalued amounts according to International Accounting Standard ("IAS") No. 16 "Property, Plant and Equipment".

Key assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts. Such estimates and assumptions are based on the information available to the Group's management as of the date of the consolidated financial statements. Therefore, actual results could differ from those estimates and assumptions. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2007	31 December 2006
Allowance for impairment losses on loans to customers	10,523	3,989
Property, plant and equipment	93,300	43,343

Loans to customers and due from banks are measured at amortized cost less allowance for impairment losses. The estimation of allowances for impairments involves the exercise of significant judgment.

The Group estimates allowances for impairment with the objective of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb probable losses incurred in the Group's loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on historic experience. These determinations are supplemented by various formulaic calculations and the application of management judgment.

The Group considers accounting estimates related to provisions for loans key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses (as reflected in the provisions) and actual losses will require the Group to take provisions which, if significantly different, could have a material impact on its future income statement and its balance sheet. The Group's assumptions about estimated losses are based on past performance, past customer behavior, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Certain property (buildings) is measured at revalued amounts. The date of the latest appraisal was 31 December 2007. The next revaluation is preliminary scheduled as of 31 December 2008.

Investments available-for-sale are measured at fair value less impairment losses. The estimation of impairments involves the exercise of significant management judgment.

The management of the Group is confident that no valuation allowance against deferred tax assets at the balance-sheet date is considered necessary, because it is more likely than not the deferred tax asset will be fully realized.

The accounting policy for the impairment of financial instruments is discussed in Note 3 below.

Functional currency

The functional currency of these financial statements is the Georgian Lari.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively. For a business combination involving entities or business under common control all assets and liabilities of a subsidiary are measured at their carrying values recorded in the stand-alone financial statements of the subsidiary with the difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition recorded directly in equity attributable to the equity holders of the parent.

The results of subsidiaries founded, acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

The difference, if any, between the carrying amount of minority interest and the amount received on its purchase is recognized in equity attributable to the equity holders of the parent.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognized.

As at 31 December 2007 assets, liabilities and net profit for the year then ended of associate are presented as follows:

Name of associate	Total assets of associate	Total liabilities of associate	Revenue of associate	Net loss
United System for Instant Payments	1,527	1,696	2,026	92

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of Georgia with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"). For purposes of determining cash flows, the minimum reserve deposit required by the National Bank of Georgia is not included as a cash equivalent due to restrictions on its availability.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans granted by the Group are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group.

Allowance for impairment losses

The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. For financial assets carried at cost, the impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in impairment losses is charged to profit, and the total of impairment losses is deducted in arriving at assets as shown in the consolidated balance sheet. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

The Group accounts for impairment losses on financial assets at amortized cost using allowance account, for financial assets measured at cost through direct write off.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses that are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Investments available-for-sale

Investments available-for-sale represent equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the consolidated income statement, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. Dividends received are included in dividend income in the consolidated income statement.

Non-marketable equity securities are stated at cost, less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the consolidated income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the consolidated income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the consolidated income statement.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are carried at historical cost less accumulated depreciation and any recognized impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation is charged on the carrying value of property, plant and equipment and intangible assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	2%-3%
Furniture and equipment	15%-20%
Computer equipment	20%-25%
Vehicles	20%-25%
Leasehold improvements	15%-25%
Intangible assets	10%

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

The carrying amounts of property, plant and equipment and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, plant and equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property, plant and equipment and intangible assets revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the balance sheet if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

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

Due to banks, customer accounts and subordinated debt

Due to banks, customer accounts and subordinated debt are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Share capital and share premium

Contributions to share capital are recognized at their cost. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of the Georgian legislation, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. In addition such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by state pension fund. The Group does not have any pension arrangements separate from the State pension system of Georgia. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability or group of financial assets or financial liabilities and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

Interests earned on assets at fair value are classified within interest income.

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

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

	31 December 2007	**31 December 2006**
Georgian Lari/1 US Dollar	1.5916	1.7135
Georgian Lari/1 Euro	2.3315	2.2562

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Adoption of new standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years except for the effect of application of IFRS 7 "Financial Instruments: Disclosure" ("IFRS 7").

IFRS 7 is effective for the annual period beginning on or after 1 January 2007. IFRS 7 establishes new requirements and recommendations on financial instrument disclosure. Adoption of IFRS 7 did not affect the classification and measurement of Group's financial instruments in the financial statements. Additional information was disclosed in the financial statements for the current and comparative reporting periods as required by IFRS 7.

At the date of these financial statements IFRS 8 "Operating Segments" was issued but not yet effective for these financial statements (effective 1 January 2009). The new Standard will replace IAS 14 "Segment Reporting". The management is currently assessing the impact of the adoption of this new Standard on future period. The Group anticipates that other new Standards and Interpretations will have no material financial impact on the financial statements of the Group.

4. PRIOR PERIOD ADJUSTMENTS

Prior period adjustments

In 2007 the Group's management discovered errors in the consolidated financial statements for the year ended 31 December 2006. Certain types of transactions were not properly recorded. The amount of dividends paid was recognized as salary expense, while the rest of dividends payable were not recognized in the consolidated financial statements. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the correction of the errors was done retrospectively. Comparative amounts were restated and the corrections were made to the earliest prior period presented.

The effect of the adjustments made to the consolidated financial statements for the year ended 31 December 2006 is as follows:

Type of correction	Amount of correction	Financial statements item	As previously reported 31 December 2006/year ended 31 December 2006	As restated 31 December 2006/year ended 31 December 2006
Adjust the amount previously recognized as salary and attribute this amount to retained earnings as it represents the paid dividends	818	Operating expenses	24,838	24,020
To recognize the unrecorded amount of dividends payable	1,861	Dividends payable	-	1,861
To adjust the retained earnings for the amount of unrecorded dividends payable	1,861	Retained earnings/(Accumulated loss)	559	(1,302)

5. NET INTEREST INCOME

	Year ended 31 December 2007	Year ended 31 December 2006
Interest income comprises:		
Interest income on assets recorded at amortized cost:		
- interest income on assets that has been collectively assessed for impairment	12,773	4,233
- interest income on assets that has been individually assessed for impairment	524	532
- interest income on unimpaired assets	2,133	1,272
Total interest income	**15,430**	**6,037**
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers	14,850	5,642
Interest on investment held to maturity	56	124
Interest on due from banks	524	271
Total interest income on financial assets recorded at amortized cost	15,430	6,037
Interest expense comprises:		
Interest on liabilities recorded at amortized cost	(4,553)	(806)
Total interest expense	**(4,553)**	**(806)**
Interest expense on liabilities recorded at amortized cost comprise:		
Interest on customer accounts	(4,252)	(572)
Interest on due to banks	(301)	(234)
Total interest expense on financial assets recorded at amortized cost	(4,553)	(806)
Net interest income before provision for impairment losses on interest bearing assets	**10,877**	**5,231**

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Due from banks	Loans to customers	Total
31 December 2005	**40**	**3,618**	**3,658**
(Recovery)/provision	(40)	1,314	1,274
Write-off of assets	-	(943)	(943)
31 December 2006	**-**	**3,989**	**3,989**
Provision	-	8,426	8,426
Write-off of assets	-	(1,892)	(1,892)
31 December 2007	**-**	**10,523**	**10,523**

The movements in allowances for impairment losses on other transactions were as follows:

	Other assets	Guarantees	Total
31 December 2005	264	6	270
Provision/(recovery)	522	(6)	516
Write-off of assets	(65)	-	(65)
31 December 2006	721	-	721
Provision	206	146	352
Write-off of assets	(8)	-	(8)
31 December 2007	919	146	1,065

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Dealing, net	1,575	775
Translation differences, net	(80)	(23)
Total net gain on foreign exchange operations	**1,495**	**752**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Fee and commission income:		
Settlement from pension operations	12,248	10,563
Swift money transfers	6,029	3,854
Settlements	3,428	3,052
Cash operations	3,360	2,396
Voucherization and scholarship state program	1,449	-
Other	1,664	820
Total fee and commission income	**28,178**	**20,685**
Fee and commission expense:		
Cash operations	210	413
Processing of VISA cards	327	266
Correspondent bank service	220	160
Other	31	-
Total fee and commission expense	**788**	**839**

9. OTHER INCOME

Other income comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Insurance income	4,641	112
Change in unearned premium reserve	(2,108)	(62)
Change in reserve for incurred but not reported losses	(171)	(5)
Change in reserve for reported but not settled losses	(147)	(18)
Insurance claims incurred	(426)	(16)
Insurance income, net	**1,789**	**11**
Gain from sale of land	2,434	-
Income from architectural works and rent	2,432	1,993
Revenues from employment program	-	82
Income from postal and courier services	656	3
Revenues from guarantees and letters of credit	427	63
Revenues from fines	371	76
Revenues from servicing documentary stamps	48	49
Other	1,935	50
Total other income	**10,092**	**2,327**

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Salary and bonuses	16,007	11,603
Depreciation and amortization	3,291	1,665
Advertizing costs	3,094	922
Utilities	2,081	1,960
Materials	1,984	816
Rent	1,826	1,546
Representative expenses	1,345	1,076
Security	1,051	862
Penalties and fines	985	91
Property, plant and equipment maintenance	725	886
Professional services	657	191
Taxes, other than income tax	646	635
Business trip expenses	533	344
Bank forms and documents production	168	190
Plastic card operation	118	233
Other expenses	4,288	1,000
Total operating expenses	**38,799**	**24,020**

11. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from International Financial Reporting Standards.

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2007 and 2006 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2007 and 2006 comprise:

	31 December 2007	31 December 2006
Deductible temporary differences:		
Due from banks	76	76
Impairment of goodwill	1,085	1,085
Property, plant and equipment	813	-
Other liabilities	292	292
Total deductible temporary differences	**2,266**	**1,453**
Taxable temporary differences:		
Property, plant and equipment	(79,246)	(34,288)
Total taxable temporary differences	**(79,246)**	**(34,288)**
Net deferred taxable temporary differences at 15% rate	(11,547)	(6,567)
Loss carry forward at 20% rate	2,740	245
Net deferred tax liability	**(8,807)**	**(6,322)**

Relationships between tax expenses and accounting profit for the years ended 31 December 2007 and 2006 are explained as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before income tax	2,268	2,737
Tax at the statutory tax rate	454	547
Effect of change in tax rate	(1,642)	-
Tax effect of permanent differences	1,012	319
Income tax (benefit)/expense	**(176)**	**866**
Current income tax expense	1,311	63
(Recovery)/provision for deferred tax liabilities	(1,487)	803
Income tax expense	**(176)**	**866**

Deferred income tax liabilities	**2007**	**2006**
Beginning of the period	**6,322**	**2,154**
Tax effect of changes in property, plant and equipment revaluation reserve	3,972	3,365
Increase/(decrease) in income tax liability for the period charged to profit	(1,487)	803
End of the period	**8,807**	**6,322**

Effective 1 January 2008 the corporate income tax rate has changed from 20% to 15%.

12. CASH AND BALANCES WITH THE NATIONAL BANK OF GEORGIA

	31 December 2007	31 December 2006
Cash	16,581	11,613
Balances with the National Bank of Georgia	11,468	9,892
Total cash and balances with the National Bank of Georgia	**28,049**	**21,505**

The balances with the National Bank of Georgia ("NBG") as at 31 December 2007 and 2006 include GEL 7,587 thousand and GEL 5,587 thousand, respectively, which represent the obligatory minimum reserve deposits with the NBG. The Bank is required to maintain the reserve balance at the NBG at all times.

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

	31 December 2007	31 December 2006
Cash and balances with the National Bank of Georgia	28,049	21,505
Due from banks in OECD countries	5,259	2,452
Less minimum reserve deposits with the NBG	(7,587)	(5,587)
Total cash and cash equivalents	**25,721**	**18,370**

13. DUE FROM BANKS

Due from banks comprise:

	31 December 2007	31 December 2006
Time deposits with other banks	10,677	2,756
Correspondent accounts with other banks	13,507	12,001
Total due from banks	**24,184**	**14,757**

As at 31 December 2007 and 2006 accrued interest income included in due from banks amounted to GEL 18 thousand and GEL 10 thousand, respectively.

Movements in allowances for impairment losses on balances due from banks for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

As at 31 December 2007 and 2006 the Group had due from 1 and 3 banks, respectively, which individually exceeded 10% of the Group's equity.

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2007	31 December 2006
Loans to customers	128,458	44,351
Accrued interest	2,522	1,439
	130,980	45,790
Less allowance for impairment losses	(10,523)	(3,989)
Total loans to customers	**120,457**	**41,801**

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

The above table summarized the amount of loans secured by collateral, rather than the fair value of the collateral itself:

	31 December 2007	31 December 2006
Loans collateralized by salary	36,706	1,242
Loans collateralized by real estate	33,836	11,789
Loans collateralized by inventory and equipment	14,228	6,364
Loans collateralized by pension funds	9,215	4,861
Loans collateralized by other collateral	3,646	4,286
Loans collateralized by gold	2,678	1,917
Loans collateralized by cash or guarantees from Georgian government	2,649	141
Loans collateralized by securities	1,987	1,864
Loans collateralized by guarantees	1,601	183
Unsecured loans	24,434	13,143
	130,980	45,790
Less allowance for impairment losses	(10,523)	(3,989)
Total loans to customers	**120,457**	**41,801**

	31 December 2007	31 December 2006
Analysis by sector:		
Individuals	79,115	30,227
Real estate and construction	12,437	2,308
Energy	9,995	3,080
Trade and service	6,721	4,158
Manufacturing	4,919	2,426
Agriculture	2,023	2,265
Other	15,770	1,326
	130,980	45,790
Less allowance for impairment losses	(10,523)	(3,989)
Total loans to customers	**120,457**	**41,801**

Loans to individuals comprise the following products:

	31 December 2007	31 December 2006
Consumer loans	68,521	29,042
Overdrafts	3,687	852
Other	6,907	333
	79,115	30,227
Less allowance for impairment losses	(4,043)	(580)
Total loans to individuals	**75,072**	**29,647**

As at 31 December 2007 and 2006 the Group granted loans to 5 customers, totaling GEL 20,313 thousand and GEL 9,718 thousand, respectively, which individually exceeded 28% and 38% of the Group's equity as at 31 December 2007 and 2006, respectively.

As at 31 December 2007 and 2006 all loans were granted to companies operating in Georgia, which represents a significant geographical concentration in one region.

As at 31 December 2007 and 2006 loans to customers included loans in amount of GEL 4, 263 thousand and GEL 4,231 thousand, respectively, whose terms have been renegotiated. Otherwise these loans would be past due or impaired.

As at 31 December 2007 and 2006 loans to customers included loans in amount of GEL 16,340 thousand and GEL 6,900 thousand, respectively, that were individually determined to be impaired.

15. INVESTMENTS IN ASSOCIATES

The following enterprises were recorded in the consolidated financial statements using the equity method:

	31 December 2007		31 December 2006	
	Ownership interest	Carrying value	Ownership interest	Carrying value
United System for Instant Payments	30%	789	-	-
		789		-

In 2007 the Group purchased 30% ownership interest in United System for Instant Payments.

The percentage held of the above associates represents both direct and/or indirect ownership of the Group.

	31 December 2007	31 December 2006
	GEL'000	GEL'000
Balance at beginning of the year	-	-
Acquisition	798	-
Share of post-acquisition loss	(9)	-
Balance at end of the year	789	-

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and other real estate	Furniture and equipment	Computer equipment	Vehicles	Leasehold improve-ments	Constructio in progress	Total
At revalued cost							
31 December 2005	14,731	3,156	1,958	827	1,382	247	22,301
Additions	550	4,087	1,894	522	780	63	7,896
Revaluation increase	16,757	-	-	-	-	-	16,757
Disposals	(15)	(78)	-	(18)	-	(12)	(123)
31 December 2006	32,023	7,165	3,852	1,331	2,162	298	46,831
Additions	17,072	5,028	1,481	420	850	1,366	26,217
Revaluation increase	25,322	-	-	-	-	-	25,322
Disposals	(44)	-	-	(16)	-	-	(60)
31 December 2007	74,373	12,193	5,333	1,735	3,012	1,664	98,310
Accumulated depreciation							
31 December 2005	323	610	708	251	38	-	1,930
Charge for the year	286	510	623	140	33	-	1,592
Eliminated on disposals	(15)	(17)	-	(2)	-	-	(34)
31 December 2006	594	1,103	1,331	389	71	-	3,488
Charge for the year	1,025	867	905	209	49	-	3,055
Eliminated on revaluation	(1,522)	-	-	-	-	-	(1,522)
Eliminated on disposals	(2)	-	-	(9)	-	-	(11)
31 December 2007	95	1,970	2,236	589	120	-	5,010
Net book value							
31 December 2007	**74,278**	**10,224**	**3,097**	**1,145**	**2,892**	**1,664**	**93,300**
31 December 2006	**31,429**	**6,062**	**2,521**	**942**	**2,091**	**298**	**43,343**

The Group's buildings were revalued based on an independent expert's appraisals Georgian Valuation Company LLC. The fair values of revalued items were determined directly by reference to observable prices in an active market and recent market transactions on arm's length terms.

Had the buildings been carried under the cost method the book value would be GEL 4,882 thousand. At 31 December 2006 the total revaluation surplus net of tax recognized in equity amounted to GEL 14,046 thousand.

The revaluation surplus of GEL 22,510 thousand, net of deferred tax in the amount of GEL 3,972 thousand and eliminated depreciation of GEL 1,522 thousand has been recognized under the equity as a revaluation reserve. The revaluation increase of GEL 362 thousand has been recognized in income statement reversing a revaluation decrease of the same assets previously recognized in income statement.

As at 31 December 2007 and 2006 included in property, plant and equipment were fully depreciated assets of GEL 1,571 thousand and GEL 575 thousand, respectively.

17. OTHER ASSETS

Other assets comprise:

	31 December 2007	31 December 2006
Prepayments for property and equipment	5,207	591
Prepayments and other debtors	4,785	2,468
Prepaid operating taxes	3,939	116
Accrual of commission income	3,036	219
Intangible assets	2,762	1,851
Repossessed assets	468	468
Other	2,141	287
Less allowance for impairment losses on other assets	(919)	(721)
Total other assets	**21,419**	**5,279**

Movements in allowances for impairment losses on other assets for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

	Intangible assets
At cost	
31 December 2005	623
Additions	1,344
31 December 2006	1,967
Additions	1,148
31 December 2007	3,115
Accumulated amortization	
31 December 2005	43
Charge for the year	73
31 December 2006	116
Charge for the year	237
31 December 2007	353
Net book value	
31 December 2007	**2,762**
31 December 2006	**1,851**

Intangible assets include software, patents and licenses.

18. DUE TO BANKS

Due to banks comprise:

	31 December 2007	31 December 2006
Correspondent accounts of other banks	19	29
Loans from banks and financial institutions	-	3,431
Term deposits of banks and other financial institutions	2,958	5,835
Total due to banks	**2,977**	**9,295**

As at 31 December 2007 and 2006 accrued interest expense included in due to banks amounted to GEL 24 thousand and GEL 17 thousand, respectively.

As at 31 December 2007 and 2006 the due to banks in the amounts of GEL 2,000 thousand (67%) and GEL 2,000 thousand (22%), respectively, were due to 1 bank, which represents significant concentration.

19. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2007	31 December 2006
Time deposits	55,188	11,535
Repayable on demand	152,699	68,898
Total customer accounts	**207,887**	**80,433**

As at 31 December 2007 and 2006 accrued interest expense included in customer accounts amounted to GEL 2,522 thousand and GEL 261 thousand, respectively.

As at 31 December 2007 and 2006 customer accounts of GEL 6,734 thousand (3%) and GEL 2,184 thousand (3%), respectively, were due to one customer, which represents significant concentration.

	31 December 2007	31 December 2006
Analysis by sector:		
Individuals	106,990	38,348
Government	44,501	21,096
State controlled	13,060	7,423
Trade and Service	7,871	4,546
Construction	2,626	1,022
Transport and communication	2,941	331
Energy	2,219	384
Mining	490	117
Agriculture	118	100
Other	27,071	7,066
Total customer accounts	**207,887**	**80,433**

20. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2007	31 December 2006
Pension funds	4,081	3,076
Technical provisions on insurance	2,645	23
Sundry creditors	1,240	460
Prepaid commission expense	-	158
Operating taxes payable	-	100
Other	1,040	418
Total other liabilities	**9,006**	**4,235**

21. SHARE CAPITAL AND SHARE PREMIUM

As of 31 December 2007 and 2006 authorized, issued and paid-in share capital consisted of 1,552,110,000 and 12,000,000 ordinary shares with par value of GEL 0.01 each and GEL 1, respectively.

According to the shareholders meeting conducted on 30 October 2007, the board made a decision to decrease par value of share based on proportion 1:100, while maintaining all conditions of existing charter.

The below table provides a reconciliation of the share capital as of 31 December 2007 and 2006:

	Ordinary shares GEL'000
31 December 2005	10,000
Issue of shares	2,000
31 December 2006	12,000
Issue of shares	3,521
Treasury shares	(500)
31 December 2007	15,021

Share premium represents an excess of contributions received over the nominal value of shares issued.

Each issued share has one voting right.

22. COMMITMENTS AND CONTINGENCIES

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

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

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

Provision for losses on contingent liabilities amounted to GEL 146 thousand and nil as at 31 December 2007 and 2006, respectively.

As at 31 December 2007 and 2006 the nominal or contract amounts were:

	31 December 2007 Nominal Amount	31 December 2006 Nominal amount
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	8,102	3,443

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. The tranches within the credit line are issued under separate agreements, therefore as at 31 December 2007 and 2006 the commitment within the credit lines equaled to nil.

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at 31 December 2007 and 2006.

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

Taxation – Due to the presence in Georgian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Group's business activities was to be challenged by the tax authorities, the Group may by assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions and market level for deals' pricing. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements.

Operating environment – The Group's principal business operations are within Georgia. Due to the recent conflict between Georgia and the Russian Federation, the business environment is uncertain and may be subject to rapid change. The Group's operations and assets could be at risk due to negative changes in the political, economic or business environment within Georgia and between Georgia and the Russian Federation. These consolidated financial statements do not contain any adjustments, if any, that may arise from the realization of this uncertainty.

23. SUBSEQUENT EVENTS

As a result of the conflict described in Operating Environment Note above, the Group has lost access and control over its two branches located in areas adjacent to provinces of South Ossetia and Abkhazia. The management has made the estimate of the damage related to the loss of assets, which approximates GEL 355 thousand.

24. TRANSACTIONS WITH RELATED PARTIES

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

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

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

(c) Joint ventures in which the Group is a venturer;

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

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2007 and 2006 with related parties:

	31 December 2007		31 December 2006	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans to customers		130,980		85,790
- Key management personnel	42		106	
- Shareholders/member of supervisory board	1,855		3,831	
Allowance for impairment losses		(10,523)		(3,989)
- Key management personnel	(1)		-	
- Shareholders/member of supervisory board	(1,068)		-	
Customer accounts		207,887		80,433
- Key management personnel	1,553		47	
- Shareholders/member of supervisory board	44		210	

	31 December 2007		31 December 2006	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	1,996	16,007	715	11,003

Included in the consolidated income statement for the years ended 31 December 2007 and 2006 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2007		Year ended 31 December 2006	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income		15,430		6,037
- *Key management personnel*	10		2	
- *Shareholders/member of supervisory board*	327		63	
Interest expense		(4,553)		(806)
- *Key management personnel*	4		-	
Provision for impairment losses		(8,426)		(1,274)
- *Key management personnel*	1		-	
- *Shareholders/member of supervisory board*	(1,068)		-	
Operating expenses		(38,799)		(24,020)
- *Key management personnel*	(1,368)		(715)	
- *Shareholders/member of supervisory board*	(654)		(818)	

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the consolidated balance sheet of the Group is presented below:

	31 December 2007		31 December 2006	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the National Bank of Georgia	28,049	28,049	21,505	21,505
Due from banks	24,184	24,184	14,757	14,757
Loans to customers	120,457	120,457	41,801	41,801
Investments available-for-sale	871	871	44	44
Due to banks	2,977	2,977	9,295	9,295
Customer accounts	207,887	207,887	80,433	80,433

26. REGULATORY MATTERS

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

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses.

As at 31 December 2007 the Group's total capital amount for Capital Adequacy purposes was GEL 43,248 thousand and tier 1 capital amount was GEL 23,032 thousand with ratios of 26% and 14%, respectively.

As at 31 December 2006 the Group's total capital amount for Capital Adequacy purposes was GEL 18,443 thousand and tier 1 capital amount was GEL 11,190 thousand with ratios of 25% and 15%, respectively.

As at 31 December 2007 the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

27. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 29, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in consolidated statement of changes in equity.

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

The Group's overall capital risk management policy remains unchanged from 2006.

28. RISK MANAGEMENT POLICIES

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

- Credit exposures
- Liquidity risk
- Market risk

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

A description of the Group's risk management policies in relation to those risks follows.

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers.

Limits on the level of credit risk by borrower are reviewed and approved by the Supervisory Board twice a year. Actual exposure per borrower against limits is monitored on new loans granted. The Credit Committee may initiate a change in the limits; however this must be approved by the Supervisory Board.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate guarantees. The credit risks are monitored on a continuous basis and are subject to annual or more frequent reviews, especially where no such security can be obtained.

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

Maximum exposure

The Groups maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off balance sheet assets, the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

As at 31 December 2007 and 2006:

	31 December 2007	**31 December 2006**
Due from banks	24,184	14,757
Loans to customers	130,980	45,790
Investments available-for-sale	871	44
Contingent liabilities and credit commitments	8,102	3,443

Financial assets, such as amounts due from banks are graded according to the current credit rating they have been issued by an internationally regarded agency such as Standard and Poors. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade. The Group does not have an internal rating system, thus financial assets, other than amounts due from banks, are not rated.

The following table details the credit ratings of financial assets held by the Group as at 31 December 2007:

	AAA	AA	A	BBB	>BBB	Not rated	Total at 31 December 2007
Due from banks	-	6,845	572	1,407	74	15,286	24,184
Loans to customers	-	-	-	-	-	120,457	120,457
Investments available-for-sale	-	-	-	-	-	871	871
Total		**6,845**	**572**	**1,407**	**74**	**136,614**	**145,512**

As at 31 December 2006:

	AAA	AA	A	BBB	>BBB	Not rated	Total at 31 December 2006
Due from banks	-	5,964	132	1,206	26	7,429	14,757
Loans to customers	-	-	-	-	-	41,801	41,801
Investments available-for-sale	-	-	-	-	-	44	44
Total	**-**	**5,964**	**132**	**1,206**	**26**	**49,274**	**56,602**

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

The following table details the carrying value of assets that are past due but not impaired:

As at 31 December 2007:

	Financial assets past due but not impaired			
	0-3 months	3-6 months	6 months to 1 year	Greater than one year
Loans to customers	4,849	918	15,761	15,806
Total	**4,849**	**918**	**15,761**	**15,806**

As at 31 December 2006:

	Financial assets past due but not impaired			
	0-3 months	3-6 months	6 months to 1 year	Greater than one year
Loans to customers	2,566	739	5,362	8,665
Total	**2,566**	**739**	**5,362**	**8,665**

Geographical concentration

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

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

	Georgia	Other non-OECD countries	OECD countries	31 December 2007 Total
ASSETS				
Cash and balances with the NBG	28,049	-	-	28,049
Due from banks	14,409	4,157	5,618	24,184
Loans to customers	120,457	-	-	120,457
Investments available-for-sale	871	-	-	871
Investments in associates	789	-	-	789
Property, plant and equipment	93,300	-	-	93,300
Current income tax assets	636	-	-	636
Other assets	21,419	-	-	21,419
TOTAL ASSETS	**279,930**	**4,157**	**5,618**	**289,705**
LIABILITIES				
Due to banks	2,043	-	934	2,977
Customer accounts	207,887	-	-	207,887
Provisions	146	-	-	146
Current income tax liability	1,294	-	-	1,294
Deferred income tax liability	8,807	-	-	8,807
Other liabilities	9,006	-	-	9,006
TOTAL LIABILITIES	**229,183**	**-**	**934**	**230,117**
NET POSITION	**50,747**	**4,157**	**4,684**	

	Georgia	OECD countries	Non-OECD countries	31 December 2006 Total
ASSETS				
Cash and balances with the NBG	21,505	-	-	21,505
Due from banks	5,977	3,034	5,746	14,757
Loans to customers	41,801	-	-	41,801
Investments available-for-sale	44	-	-	44
Property, plant and equipment	43,343	-	-	43,343
Current income tax assets	653	-	-	653
Other assets	5,279	-	-	5,279
TOTAL ASSETS	**118,602**	**3,034**	**5,746**	**127,382**
LIABILITIES				
Due to banks	5,868	-	3,427	9,295
Customer accounts	80,433	-	-	80,433
Deferred income tax liability	6,322	-	-	6,322
Dividends payable	1,861	-	-	1,861
Other liabilities	4,235	-	-	4,235
TOTAL LIABILITIES	**98,719**	**-**	**3,427**	**102,146**
NET POSITION	**19,883**	**3,034**	**2,319**	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of expected future cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

An analysis of the liquidity risk on balance sheet transactions is presented in the following table:

As at 31 December 2007:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
ASSETS							
Due from banks	-	-	-	10,500	-	159	10,659
Loans to customers	28,739	10,434	35,233	45,199	852	-	120,457
Total interest bearing assets	28,739	10,434	35,233	55,699	852	159	131,116
Cash and balances with the National Bank of Georgia	20,462	-	-	-	-	7,587	28,049
Due from banks	13,525	-	-	-	-	-	13,525
Investments available for sale	-	-	-	-	-	871	871
Investments in associates	-	-	-	-	-	789	789
Property, plant and equipment	-	-	-	-	-	93,300	93,300
Current income tax assets	-	-	636	-	-	-	636
Other assets	18,656	-	-	-	-	2,763	21,419
TOTAL ASSETS	**81,382**	**10,434**	**35,869**	**55,699**	**852**	**105,469**	**289,705**
LIABILITIES							
Due to banks	2,024	933	-	-	-	1	2,958
Customer accounts	4,505	4,325	42,239	4,103	16	-	55,188
Total interest bearing liabilities	6,529	5,258	42,239	4,103	16	1	58,146
Due to banks	19	-	-	-	-	-	19
Customer accounts	152,699	-	-	-	-	-	152,699
Provisions	146	-	-	-	-	-	146
Current income tax liability	-	-	1,294	-	-	-	1,294
Deferred income tax liability	-	-	-	-	-	8,807	8,807
Other liabilities	9,006	-	-	-	-	-	9,006
TOTAL LIABILITIES	**168,399**	**5,258**	**43,533**	**4,103**	**16**	**8,808**	**230,117**
Liquidity gap	(87,017)	5,176	(7,664)	51,596	836		
Interest sensitivity gap	22,210	5,176	(7,006)	51,596	836		
Cumulative interest sensitivity gap	22,210	27,386	20,380	71,976	72,812		
Cumulative interest sensitivity gap as a percentage of total assets	7%	9%	7%	24%	24%		

As at 31 December 2006:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2006 Total
ASSETS						
Due from banks	1,510	1,000	-	246	-	2,756
Loans to customers	8,565	2,783	21,268	9,185	-	41,801
Total interest bearing assets	10,075	3,783	21,268	9,431	-	44,557
Cash and balances with the NBG	15,918	-	-	-	5,587	21,505
Due from banks	11,824	-	-	-	177	12,001
Property, plant and equipment	-	-	-	-	43,343	43,343
Investments available-for-sale	-	-	-	-	44	44
Current income tax assets	-	-	653	-	-	653
Other assets	3,428	-	-	-	1,851	5,279
TOTAL ASSETS	**41,245**	**3,783**	**21,921**	**9,431**	**51,002**	**127,382**
LIABILITIES						
Due to banks	4,838	997	-	3,431	-	9,266
Customer accounts	3,202	2,316	5,691	326	-	11,535
Total interest bearing liabilities	8,040	3,313	5,691	3,757	-	20,801
Due to banks	29	-	-	-	-	29
Customer accounts	68,898	-	-	-	-	68,898
Deferred income tax liabilities	-	-	-	-	6,322	6,322
Dividends payable	1,861	-	-	-	-	1,861
Other liabilities	4,235	-	-	-	-	4,235
TOTAL LIABILITIES	**83,063**	**3,313**	**5,691**	**3,757**	**6,322**	**102,146**
Liquidity gap	(41,818)	470	16,230	5,674		
Interest sensitivity gap	2,035	470	15,577	5,674		
Cumulative interest sensitivity gap	**2,035**	**2,505**	**18,082**	**23,756**		
Cumulative interest sensitivity gap as a percentage of total assets	**2%**	**2%**	**14%**	**19%**		

Analysis of undiscounted cash flows are presented below:

	Weighted average effective interest rate, %	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	31 December 2007 Total
LIABILITIES						
Due to banks	6.47%	2,026	1,241	-	-	3,267
Customer accounts	12.10%	157,215	4,381	44,721	4,567	210,884
Total		**159,241**	**5,622**	**44,721**	**4,567**	**214,151**

	Weighted average effective interest rate, %	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	31 December 2006 Total
LIABILITIES						
Due to banks	6.76%	4,869	1,012	-	4,113	9,994
Customer accounts	10.94%	72,103	2,349	6,102	576	81,130
Total		**76,972**	**3,361**	**6,102**	**4,689**	**91,124**

Market risk

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

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

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

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin.

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

The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	2007		2006	
	GEL	**USD**	**GEL**	**USD**
ASSETS				
Due from banks	6.7%	6.0%	6.9%	-
Loans to customers	24.0%	23.0%	20.9%	24.0%
LIABILITIES				
Due to banks	6.6%	6.7%	12.0%	5.3%
Customer accounts	12.3%	11.8%	11.4%	9.5%

Interest rate sensitivity

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

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

Impact on profit before tax:

	As at 31 December 2007		As at 31 December 2006	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Assets:				
Due from banks	89	(89)	26	(26)
Loans to customers	550	(550)	212	(212)
Liabilities:				
Due to banks	(17)	17	(20)	20
Customer accounts	(392)	392	(71)	71
Net impact on profit before tax	**230**	**(230)**	**147**	**(147)**

Impact on shareholders equity:

	As at 31 December 2007		As at 31 December 2006	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Assets:				
Due from banks	71	(71)	21	(21)
Loans to customers	440	(440)	170	(170)
Liabilities:				
Due to banks	(14)	14	(16)	16
Customer accounts	(314)	314	(57)	57
Net impact on shareholders equity	**183**	**(183)**	**118**	**(118)**

Currency risk

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

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

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

As at 31 December 2007:

	GEL	**USD** USD 1 = 1.5916 GEL	**EUR** EUR 1 = 2.3315GEL	**Other currency**	**31 December 2007 Total**
ASSETS					
Cash and balances with the NBG	12,461	12,790	2,742	56	28,049
Due from banks	10,593	10,535	2,774	282	24,184
Loans to customers	97,579	22,761	117	-	120,457
Investments available-for-sale	871	-	-	-	871
Investments in associates	789	-	-	-	789
Property, plant and equipment	93,300	-	-	-	93,300
Current income tax assets	636	-	-	-	636
Other assets	21,419	-	-	-	21,419
TOTAL ASSETS	**237,648**	**46,086**	**5,633**	**338**	**289,705**
LIABILITIES					
Due to banks	2,013	964	-	-	2,977
Customer accounts	148,078	50,555	9,250	4	207,887
Provisions	146	-	-	-	146
Current income tax liability	1,294	-	-	-	1,294
Deferred income tax liability	8,807	-	-	-	8,807
Other liabilities	9,006	-	-	-	9,006
TOTAL LIABILITIES	**169,344**	**51,519**	**9,250**	**4**	**230,117**
OPEN BALANCE SHEET POSITION	**68,304**	**(5,433)**	**(3,617)**	**334**	

As at 31 December 2006:

	GEL	USD USD 1 = GEL 1.7135	EUR EUR 1 = GEL 2.2562	Other currency	31 December 2006 Total
ASSETS					
Cash and balances with the NBG	18,180	2,229	1,031	65	21,505
Due from banks	2,764	11,411	483	99	14,757
Loans to customers	36,223	5,565	13	-	41,801
Investments available-for-sale	44	-	-	-	44
Property, plant and equipment	43,343	-	-	-	43,343
Current income tax assets	653	-	-	-	653
Other assets	5,279	-	-	-	5,279
TOTAL ASSETS	**106,486**	**19,205**	**1,527**	**164**	**127,382**
LIABILITIES					
Due to banks	2,031	7,264	-	-	9,295
Customer accounts	64,055	14,881	1,427	70	80,433
Deferred income tax liabilities	6,322	-	-	-	6,322
Dividends payable	1,861	-	-	-	1,861
Other liabilities	4,210	25	-	-	4,235
TOTAL LIABILITIES	**78,479**	**22,170**	**1,427**	**70**	**102,146**
OPEN BALANCE SHEET POSITION	**28,007**	**(2,965)**	**100**	**94**	

Currency risk sensitivity

The following table details the Group's sensitivity to a 10% increase and decrease in the USD against the GEL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

	As at 31 December 2007		As at 31 December 2006	
	GEL/USD +10%	GEL/USD -10%	GEL/USD +10%	GEL/USD -10%
Impact on profit or loss	(447)	447	1,346	(1,346)
Impact on equity	(358)	358	1,077	(1,077)

Limitations of sensitivity analysis

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

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

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

Price risk

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

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