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**CONSTANTA
FOUNDATION GROUP**

Consolidated Financial Statements
For the Year Ended 31 December 2007

CONSTANTA FOUNDATION GROUP

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CONSTANTA FOUNDATION GROUP

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 Constanta Foundation (the "Fund") and its subsidiaries (the "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 net assets for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

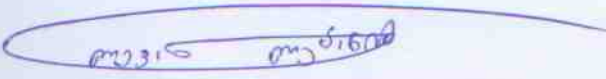
- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing 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 14 July 2008 by the Management Board.

On behalf of the Management Board:


Executive Director
Levan Lebanidze

14 July 2008

INDEPENDENT AUDITORS' REPORT

To the Governing Board of Microfinance Organization Constanta Foundation:

We have audited the accompanying consolidated financial statements of Microfinance Organization Constanta Foundation Group, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated statements of income, of changes in net assets 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 Microfinance Organization Constanta Foundation 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.

Deloitte & Touche

14 July 2008

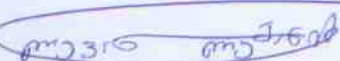
CONSTANTA FOUNDATION GROUP

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
Interest income	4,24	14,049	10,088
Interest expense	4,24	(4,736)	(2,284)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		9,313	7,804
Allowance for impairment losses on interest bearing assets	5	(251)	(643)
NET INTEREST INCOME		9,062	7,161
Net (loss)/gain on foreign exchange operations	6	(308)	100
Fee and commission expense	7	(173)	(92)
Net gain on securities held for trading		61	-
Other income	8	892	290
Other expenses	9	(250)	-
NET NON-INTEREST INCOME		222	298
OPERATING INCOME		9,284	7,459
OPERATING EXPENSES	10, 24	(10,708)	(5,932)
NET OPERATING (LOSS)/INCOME		(1,424)	1,527
Donation income	11	1,266	647
(LOSS)/PROFIT BEFORE INCOME TAX		(158)	2,174
Income tax expense	12	(585)	(475)
NET (LOSS)/PROFIT		(743)	1,699
Attributable to:			
Equity holders of the parent		(543)	-
Minority interest		(200)	-
		(743)	1,699

On behalf of the Management Board:



Executive Director
Levan Lebanidze
14 July 2008

The notes on pages 8-35 form an integral part of these consolidated financial statements.

CONSTANTA FOUNDATION GROUP

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

(in Georgia Lari and in thousands)

	Notes	31 December 2007	31 December 2006
ASSETS:			
Cash	13	1,871	238
Deposits held with banks	14	9,309	16,867
Loans to customers	15, 24	42,036	33,782
Property, plant and equipment	16	7,484	1,756
Current income tax asset		496	-
Deferred tax asset		-	21
Other assets	17,24	2,229	506
TOTAL ASSETS		63,425	53,170
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Loans from banks and other financial institutions	18	44,743	39,451
Other borrowed funds	19	2,762	-
Current income tax liability		499	369
Deferred tax liability	12	62	-
Other liabilities	20	388	93
Total liabilities		48,454	39,913
NET ASSETS:			
Net assets attributable to equity holders of the parent:			
Accumulated funds	21	11,253	13,257
Fixed assets revaluation reserve		1,247	-
Total net assets attributable to equity holders of the parent		12,500	13,257
Minority interest		2,471	-
Total net assets		14,971	13,257
TOTAL LIABILITIES AND NET ASSETS		63,425	53,170

On behalf of the Executive Board:



Executive Director
Levan Lebanidze
14 July 2008

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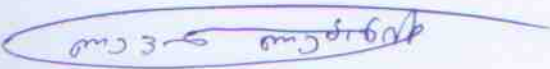
CONSTANTA FOUNDATION GROUP

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

(in Georgian Lari and in thousands)

	Accumulated funds	Fixed assets revaluation reserve	Total	Minority interest	Total net assets
31 December 2005	11,558	-	11,558	-	11,558
Net profit	1,699	-	1,699	-	1,699
31 December 2006	13,257	-	13,257	-	13,257
Share capital contribution attributable to minority holders (nominal amount)	-	-	-	3,036	3,036
Discount adjustment at initial recognition of the capital contribution	(1,461)	-	(1,461)	(365)	(1,826)
Gains on revaluation of fixed assets	-	1,247	1,247	-	1,247
Net Loss	(543)	-	(543)	(200)	(743)
31 December 2007	11,253	1,247	12,500	2,471	14,971

On behalf of the Executive Board: _____


Executive Director

Levan Lebanidze

14 July 2008

The notes on pages 8-35 form an integral part of these consolidated financial statements.

CONSTANTA FOUNDATION GROUP

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

(in Georgian Lari and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income tax		(158)	2,174
Adjustments for:			
Loss on disposal of equipment		-	27
Allowance for impairment losses on loans to customers		251	643
Depreciation and amortization charge		792	292
Net change in interest accruals		741	450
Loss on foreign exchange operations		(348)	(152)
Cash flows from operating activities before changes in operating assets and liabilities		1,278	3,434
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Loans to customers		(8,417)	(21,540)
Deposits held with banks		7,558	(17,100)
Other assets		(294)	(476)
Increase/(decrease) in operating liabilities			
Other liabilities		295	700
Cash flows from operating activities before taxation		420	(34,982)
Income tax paid		(712)	-
Net cash outflow from operating activities		(292)	(34,982)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(5,325)	(865)
Purchase of intangible assets		(170)	-
Proceeds from sale of property and equipment		54	91
Net cash outflows from investing activities		(5,441)	(774)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from other borrowed funds		2,753	-
Proceeds from bank loans		4,871	35,804
Net cash inflow from financing activities		7,624	35,804
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,891	48
Effect of exchange rates on cash and cash equivalents		(258)	(25)
CASH AND CASH EQUIVALENTS at the beginning of the year	13	238	215
CASH AND CASH EQUIVALENTS at the end of the year	13	1,871	238

On behalf of the Executive Board:


Executive Director
Levan Lebanidze
14 July 2008

The notes on pages 8-35 form an integral part of these consolidated financial statements.

CONSTANTA FOUNDATION GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1. ORGANISATION

Microfinance Organization Constanta Foundation is a non for profit micro financial organization. It was established as an association on 31 January 1997 by the Decree number 3/29 of the Ministry of Justice. The association was succeeded by the Fund Constanta that was registered on 4 December 1998 by the Decree number 30/7 of the Ministry of Justice.

The organization was further re-registered on 31 March 2005 by the Decree number 42 of the Ministry of Justice, as Microfinance Organization Constanta Foundation (the "Fund").

The registered address of the Fund is 115, Tsinamdzgvrishvili Street, Tbilisi, 0164, Georgia.

The following subsidiary is consolidated in the financial statements:

Name	Country of operation	The ownership interest		Type of operation
		2007	2006	
JSC Constanta	Georgia	80	-	Microfinance

JSC Constanta was formed as a joint stock company under the laws of Georgia on 8 November 2007. The registered share capital of the JSC as of 31 December 2007 amounted to GEL 18,000,000. The company's principal activity will be commercial activities, originating loans and guarantees, attracting customer accounts and trading foreign currencies.

On 29 December 2007 the Foundation incorporated a limited liability company "Constanta Plus" in Georgia. The authorized capital of the limited liability company amounted to GEL 12,140,680 as at 31 December 2007 which was paid up by contributing 80% shares of JSC Constanta.

As at 31 December 2007 the following shareholders owned shares of the JSC Constanta:

Shareholder	31 December 2007
	%
LLC Constanta Plus	80.0%
Lebanidze Tamar	8.6%
Lebanidze Levan	5.2%
Mirianashvili Zviad	2.2%
Ghachava Gia	2.2%
Vardziashvili Gela	0.6%
Turnava Natela	0.6%
Jakhua Manana	0.6%
Total	100%

These consolidated financial statements were authorized for issue by the Management Board of the Group on 14 July 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These 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").

Basis of preparation

These financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Microfinance Foundation and an entities controlled by the Fund (its subsidiaries) made up to 31 December 2007. Control is achieved where the Fund 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. 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.

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.

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
Loans to customers	42,885	34,739
Allowance for impairment losses	849	957
Loans to customers, net	42,036	33,782

Loans to customers 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.

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

Functional currency

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

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 and cash balances in banks.

Deposits held with 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 against allowance for impairment losses in case of being in arrears more than 180 days.

Allowance for impairment losses

The Group accounts for impairment losses on 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 amortised 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.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are carried at revalued amount 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 cost 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	5%
Furniture and equipment	20%
Vehicles	20%
Other	20%
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.

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 property, equipment and intangible assets, and interest accrued on loans to customers, 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 net assets, in which case the deferred tax is also dealt with in net assets.

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.

Loans from banks

Loans and deposits from Banks 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.

Net assets

The Fund's net assets represent the surplus of total assets over total liabilities. Net assets arise from excess of income over expenditures. Excess of income over expenditures has to be used for micro credit operations.

Contributions to net assets are recognized at their cost. External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from net assets net of any related income taxes.

Donations received

Donations received include donations from government or other parties in the form of transfers of cash, property and other types of assets to the Fund. These donations are recognized as income whenever there is a reasonable expectation that the organization will comply with the conditions of their use, if applicable.

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 annual 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.

Adoption of IFRS 7 – Effective 1 January 2007, the Group adopted IFRS 7 “Financial Instruments: Disclosure” (“IFRS 7”). IFRS 7 establishes new requirements and recommendations on financial instrument disclosure. The Group discloses all information required under IFRS 7 in its annual consolidated financial statements for the year 2007.

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

Adoption of IFRS 8 – Effective 1 January 2009, the new IFRS 8 “Operating Segments” will replace IAS 14 “Operating Segments”. The management is currently assessing the impact of the adoption of these new and revised Standards in future periods.

3. PRIOR PERIOD RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements as at 31 December 2006 and for the year then ended to conform to the presentation as at 31 December 2007 and for the year then ended as current year presentation provides better view of the financial position of the Group.

Nature of reclassification	Amount	Balance sheet/Income statement line as per the previous report	Balance sheet/Income statement line as per current report
Intangible assets transferred from property, plant and equipment to intangible assets	108	Property, plant and equipment	Other assets
Prepaid commission fee on loans from international financial institutions transferred to loans from financial institutions	164	Other Assets	Due to banks and financial institutions
Advances received comprising of borrowers' advance payment transfer to loans to customers.	210	Other liabilities	Loans to customers
Deferred commission income comprising of loan origination fee transfer to loans to customers.	360	Other liabilities	Loans to customers
Income from penalties included in other commission income transfer to other income	71	Commission income	Other income
Fee on origination of loans to customers included in commission income transferred to interest income	907	Commission income	Interest income
Fee on loans to from financial institutions included in fee and commission expense transferred to interest expense	58	Commission expense	Interest expense
Banking service fees and charges transferred from operating expenses to fee and commission expense	96	Operating expenses	Commission expense
Intangible assets transferred from property, plant and equipment to other assets	108	Property, plant and equipment	Other assets

4. NET INTEREST INCOME

	Year ended 31 December 2007	Year ended 31 December 2006
Interest income comprises:		
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers	12,584	9,326
Interest income on deposits held with banks	1,465	752
Other	-	10
Total interest income on financial assets recorded at amortized cost	14,049	10,088
Interest expense comprises:		
Interest expense on liabilities recorded at amortized cost comprise:		
Interest expenses on loans	(4,717)	(2,263)
Interest expense on overdrafts	(19)	(21)
Other interest expenses	-	-
Total interest expense on financial assets recorded at amortized cost	(4,736)	(2,284)
Net interest income before provision for impairment losses on interest bearing assets	9,313	7,804

5. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses on loans to customers were as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
At the beginning of the year	957	469
Provision	251	643
Recoveries of loans previously written off	124	97
Writtenoff	(483)	(252)
At the end of the year	849	957

6. NET (LOSS)/GAIN ON FOREIGN EXCHANGE OPERATIONS

Net (loss)/gain on foreign exchange operations comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Currency translation differences	40	152
Foreign exchange loss	(348)	(52)
Total net (loss)/gain on foreign exchange operations	(308)	100

7. FEE AND COMMISSION EXPENSE

Fee and commission expense comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Fee and commission expense:		
Cash operations	124	68
Settlements	25	14
Credit cards operations	1	1
Other	23	9
Total fee and commission expense	173	92

8. OTHER INCOME

Other income comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Fines and penalties received	822	261
Insurance premiums	41	-
Other	29	29
	892	290

9. OTHER EXPENSES

Other expenses comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Loss from sale of fixed assets	44	-
Loss on revaluation of fixed assets	206	-
	250	-

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Salaries and bonuses	4,317	2,905
Unified social tax contribution	845	594
Depreciation and amortization	792	292
Advertising costs	739	338
Operating lease	731	252
Taxes, other than income tax	503	154
Professional services	561	200
Communications	331	206
Security	280	198
Business trip expenses	252	134
Fuel	203	130
Insurance	174	100
Stationery	134	152
Utility	124	73
Assets maintenance	118	75
Training	104	41
Transportation	39	27
Membership fee	37	11
Sponsorship	24	-
Legal services	21	21
Other expenses	379	29
	<u>10,708</u>	<u>5,932</u>

11. DONATION INCOME

Donation income comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Chemonics International	280	358
Care International in Caucasus	898	289
Merci Corps	88	-
Total donation income	<u>1,266</u>	<u>647</u>

12. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with Georgian tax regulations, which 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:

	Year ended 31 December 2007	Year ended 31 December 2006
Deductible temporary differences:		
Loans to customers	680	315
Other liabilities	-	360
Total deductible temporary differences	<u>680</u>	<u>675</u>
Taxable temporary differences:		
Property, plant and equipment	1,096	408
Other assets	-	164
Total taxable temporary differences	<u>1,096</u>	<u>572</u>
Net (taxable)/deductible temporary differences	<u>(416)</u>	<u>103</u>
Net deferred tax (liability)/asset at the statutory tax rate	<u>(62)</u>	<u>21</u>

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
(Loss)/Profit before income taxes	<u>(158)</u>	<u>2,174</u>
Theoretical tax at the statutory tax rate	(32)	435
Tax effect of tax rate change	(37)	-
Tax effect of permanent differences	654	40
Income tax expense	<u>585</u>	<u>475</u>
Current income tax expense	502	496
Deferred income tax expense/(benefit)	83	(21)
Income tax expense	<u>585</u>	<u>475</u>
Deferred income tax assets/(liabilities)	2007	2006
Beginning of the period	21	-
(Increase)/decrease in income tax liability for the period charged to profit	<u>(83)</u>	<u>21</u>
End of the period	<u>(62)</u>	<u>21</u>

13. CASH

	31 December 2007	31 December 2006
Cash on hand in national currency	113	26
Cash on hand in foreign currency	46	-
Cash in banks in national currency	1,686	179
Cash in banks in foreign currency	<u>26</u>	<u>33</u>
Total cash	<u>1,871</u>	<u>238</u>

14. DEPOSITS HELD WITH BANKS

As of 31 December 2007 and 2006 the Group placed deposits with the Bank Republic in the amount of GEL 9,309 thousand and GEL 16,867 thousand, respectively.

As of 31 December 2007 and 2006 accrued interest income included in deposits held with banks amounted to GEL 7 thousand and GEL 45 thousand, respectively. As of 31 December 2007 and 2006 deposits in the amount of GEL 9,309 thousand and GEL 16,867 thousand were pledged against the loans received from the Bank Republic.

15. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2007	31 December 2006
Originated loans	42,314	33,896
Accrued interest	<u>571</u>	<u>843</u>
	42,885	34,739
Less allowance for impairment losses	<u>(849)</u>	<u>(957)</u>
Total loans to customers	<u>42,036</u>	<u>33,782</u>

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

The below table summarizes 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 household equipment and inventory	-	16,741
Loans collateralized by real estate	7,136	5,125
Loans collateralized by personal guarantees	22,690	-
Unsecured loans	12,210	11,916
Total loans to customers	<u>42,036</u>	<u>33,782</u>

	31 December 2007	31 December 2006
Analysis by sector:		
Loans to groups of individuals	35,871	20,405
Agriculture	3,466	1,461
Loans to individuals	2,699	11,916
Total loans to customers	<u>42,036</u>	<u>33,782</u>

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

As at 31 December 2007 and 2006 a maximum credit risk exposure on loans to customers amounted to GEL 42,885 thousand and GEL 34,739 thousand, respectively. As at 31 December 2007 and 2006 the Group did not have loan commitments extended to customers.

As at 31 December 2007 and 2006 loans to customers included loans in amount of GEL 242 thousand and GEL 346 thousand, respectively, that were individually determined to be impaired due to objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Vehicles	Furniture and equipment	Construction in progress	Leasehold Improvements	Other	Total
At revalued cost							
31 December 2005	803	159	1,059	-	-	9	2,030
Additions	134	79	408	50	192	-	863
Disposals	-	(109)	(220)	-	(85)	-	(414)
31 December 2006	937	129	1,247	50	107	9	2,479
Additions	1,895	344	1,774	-	1,482	88	5,583
Revaluation increase	1,396	-	-	-	-	-	1,396
Transfers	76	-	-	-	-	(76)	-
Disposals	-	(127)	(215)	-	(4)	-	(346)
31 December 2007	4,304	346	2,806	50	1,585	21	9,112
Accumulated depreciation							
31 December 2005	136	75	433	-	1	1	646
Charge for the year	41	34	212	-	1	1	289
Disposals	-	(64)	(147)	-	(1)	-	(212)
31 December 2006	177	45	498	-	1	2	723
Charge for the year	89	59	365	-	259	9	781
Revaluation increase	355	-	-	-	-	-	355
Transfers	-	(24)	(202)	-	(5)	-	(231)
Disposals	4	-	-	-	(4)	-	-
31 December 2007	625	80	661	-	251	11	1,628
Carrying amount							
31 December 2007	<u>3,679</u>	<u>266</u>	<u>2,145</u>	<u>50</u>	<u>1,334</u>	<u>10</u>	<u>7,484</u>
31 December 2006	<u>760</u>	<u>84</u>	<u>749</u>	<u>50</u>	<u>106</u>	<u>7</u>	<u>1,756</u>

As at 31 December 2007 all the groups of fixed assets owned by the Group were revalued to market values according to the opinion of the independent appraisers, Georgian Audit and Consulting Company ("GACC").

As a result, the carrying amount of land and buildings amounted to GEL 3,679 thousand. If the land and buildings were accounted at historical cost less accumulated depreciation and impairment losses, its carrying amount would be GEL 2,638 thousand as at 31 December 2007.

The following methods were used for the estimation of the fair value of land and buildings: sales comparison approach and income capitalization approach.

17. OTHER ASSETS

Other assets comprise:

	31 December 2007	31 December 2006
Receivables from sale of shares	1,270	-
Intangible assets, net	267	108
Prepayments and other debtors	263	210
Tax settlements, other than income tax	206	133
Inventory	182	55
Other	41	-
Total other assets	<u>2,229</u>	<u>506</u>

The Foundation sold 20% of shares of JSC Constanta on 31 December 2007 with a premium of GEL 0.02 each share to individuals. Ownership rights were passed to new shareholders of the company in a 20 days period subsequent to concluding the agreement. As stipulated by the terms of the agreement payment is to be performed in the period between 20 January 2013 and 31 January 2013, otherwise penalties will be charged comprising 0.07% of outstanding amount for each day. Shareholders of the company have restricted rights on dividends earned by the company prior to repayment of total payable.

The receivables from sale of shares include the adjustment on initial recognition.

	Intangible assets
At cost	
31 December 2005	117
Additions	2
Disposals	<u>(1)</u>
31 December 2006	118
Additions	<u>170</u>
31 December 2007	<u>288</u>
Accumulated amortization	
31 December 2005	7
Charge for the year	3
Eliminated on disposals	<u>-</u>
31 December 2006	10
Charge for the year	<u>11</u>
31 December 2007	<u>21</u>
Net book value	
31 December 2007	<u><u>267</u></u>
31 December 2006	<u><u>108</u></u>

Intangible assets include software, patents and licenses.

18. LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks comprise:

	31 December 2007	31 December 2006
Bank Republic	10,076	16,882
Mikrovest I,LP, A Limited Partnership Company	-	1,431
Credit Suisse Microfinance Fund Management Company	-	1,719
Global Microfinance Facility	3,349	3,613
Dexia Micro-Credit Fund	299	1,286
Global Commercial Microfinance Consortium, LTD. Deutsche Bank	6,406	6,790
European Bank for Reconstruction and Development	5,831	972
Impulse Microfinance Investment Fund	-	1,702
International Financial Organization "BLUEORCHARD"	6,395	-
Oikocredit, EDCS, U.A, The Netherlands	2,704	2,121
International Financial Organization "DWM"	4,078	-
International Financial Organization "Novibi"	3,363	1,816
International Financial Organization "Tridos Doen"	2,242	1,119
Total due to banks	44,743	39,451

As of 31 December 2007 and 2006 accrued interest expenses included in due to banks and other financial institutions amounted to GEL 568 thousand and GEL 147 thousand, respectively.

As at 31 December 2007 and 2006 deposits held with banks amounted to GEL 9,309 thousand and GEL 16,867 thousand, respectively and fixed assets with the net book value of GEL 1,446 and 628, respectively, were held as security against the loan from the Bank Republic. Loans to other financial institutions are unsecured.

19. OTHER BORROWED FUNDS

The Group was provided with a 15% interest bearing, unsecured loan facility from individual David Bejuashvili. As at 31 December 2007 the outstanding balance comprised GEL 2,762 thousand (31 December 2006 nil). As of 31 December 2007 accrued interest expense included in other borrowed facilities comprised GEL 9 thousand. Contractual terms stipulate terms of repayment which is 28 February 2008 for principle and accrued interest.

20. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2007	31 December 2006
Trade payables	170	20
Taxes payable, other than income tax	116	31
Accrued interest on other operations	5	-
Other	97	42
Total other liabilities	388	93

21. NET ASSETS

As of 31 December 2007 and 2006 the net assets of the Fund consisted of accumulated funds in the amount of GEL 11, 253 and GEL 13,257, respectively and of fixed assets revaluation reserve.

As more fully described in Note 16, as at 31 December 2007 all the groups of fixed assets owned by the Group were revalued to market values according to the opinion of the independent appraisers. As a result of the revaluation GEL 1,247 representing up valuation of land and buildings was booked to net assets.

The minority part of the share capital attributable to the minority holders of Ltd Constanta Plus is equal to GEL 2,471 as at 31 December 2007 (31 December 2006 – nil)

22. COMMITMENTS AND CONTINGENCIES

Capital commitments - The Group had material commitments for capital expenditures outstanding as at 31 December 2007 comprising 480 thousand. The capital expenditures mainly represent leasehold improvements.

Operating leases - The Group's future minimum rental payments under non-cancellable operating leases of office space in effect as of 31 December 2007 for the following 5 years are presented in the table below.

in 1 year	1,215
From 1 to 5 years	3,743
Over 5 years	343

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

Taxation - 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 be 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.

As more fully described in Note 1, in November 2007 the Fund established the Joint Stock Company and contributed to its authorized capital part of tangible and intangible assets existing on its balance sheet. The assets were contributed at revalued amounts valued by the independent appraiser as at 31 December 2007 (see Note 16).

The Management considers the risk that this transaction may be viewed as VAT taxable by the Tax Authorities pursuant to the letter of Revenue Service of the Ministry of Finance of Georgia issued in November 2007 to the third party entity not related to the Fund. This letter may be considered as a supplement of the article 225.3 of the Tax Code of Georgia "Supply of Assets as a Contribution to the Authorized Capital of Another Enterprise". Management assesses the resulting VAT risk as remote.

Operating environment - The Group's principal business activities are within Georgia. Laws and regulations affecting the business environment in Georgia are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

23. SUBSEQUENT EVENTS

In April 2008, JSC Constanta was renamed to JSC Constanta Bank and applied to the National Bank of Georgia for a banking license. The banking license was granted to JSC Constanta pursuant to the decree number 130 of the Georgian Agency of the Financial Monitoring dated 3 July 2008.

24. TRANSACTIONS WITH RELATED PARTIES

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

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives them significant influence over the Group; 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).
- (g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

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	458	42,036	10	33,782
- key management personnel	219		-	
- other related parties	239		10	
Other assets	2,817	1,270	-	506
- key management personnel	1,486		-	
- other related parties	1,331		-	

	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:		4,317		2,905
- short-term employee benefits	492		163	

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	14	14,049	4	10,088
- <i>key management personnel</i>	12		4	
- <i>other related parties</i>	2		-	
Operating expense		10,708		5,932
- <i>other related parties</i>	0		43	

As more fully described in Note 1, 20% of shares of JSC Constanta were sold to the management and members of the supervisory board of the Fund.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 7 "Financial Instruments: Disclosures" 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 amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	1,871	1,871	238	238
Deposits held with banks	9,309	9,309	16,867	16,867
Loans to customers	42,036	42,036	33,782	33,782
Loans from banks and other financial institutions	44,743	44,743	39,451	39,451

26. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's 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
- Cash flow interest rate risk
- Market risk
- Interest rate risk
- Currency risk

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

Credit risk

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

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes are reviewed and approved by the Board of Directors.

Credit Divisions

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly (quarterly) by the Management Board. The exposure to any one borrower is set by the Credit Committee.

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

Commitments to extend credit represent unused portions of credit in the form of loans. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum Exposure

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.

As at 31 December 2007 and 2006 respectively:

	Maximum exposure	
	31 December 2007	31 December 2006
Deposits held with banks	9,309	16,867
Loans to customers	42,036	33,782

The Group doesn't apply financial assets internal rating system. Financial assets include loans to customers and deposit with Bank Republic which is not rated by any external rating agency.

Geographical concentration

Board of directors exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in Georgia.

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

	Georgia	Other non-OECD countries	OECD countries	31 December 2007 Total
ASSETS				
Cash	1,871	-	-	1,871
Deposits held with banks	9,309	-	-	9,309
Loans to customers	42,036	-	-	42,036
Property, plant and equipment	7,484	-	-	7,484
Current income tax asset	496	-	-	496
Other assets	2,229	-	-	2,229
TOTAL ASSETS	63,425	-	-	63,425
LIABILITIES				
Loans from banks and other financial institutions	10,072	24,914	9,757	44,743
Other borrowed funds	2,762	-	-	2,762
Current income tax liability	499	-	-	499
Deferred tax liability	62	-	-	62
Other liabilities	388	-	-	388
TOTAL LIABILITIES	13,783	24,914	9,757	48,454
NET POSITION	49,642	(24,914)	(9,757)	

	Georgia	Other non-OECD	OECD countries	31 December 2006
ASSETS				
Cash	238	-	-	238
Deposits held with banks	16,867	-	-	16,867
Loans to customers	33,782	-	-	33,782
Property, plant and equipment	1,756	-	-	1,756
Deferred tax asset	21	-	-	21
Other assets	506	-	-	506
TOTAL ASSETS	53,170	-	-	53,170
LIABILITIES				
Loans from banks and other financial institutions	16,885	-	22,566	39,451
Income tax liability	369	-	-	369
Other liabilities	93	-	-	93
TOTAL LIABILITIES	17,347	-	22,566	39,913
NET POSITION	35,823	-	(22,566)	13,257

Liquidity risk

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

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

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on its operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet minimum level on interbank 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							
Deposits held with banks	7,248	-	2,061	-	-	-	9,309
Loans to customers	368	1,332	18,917	20,061	1,358	-	42,036
Total interest bearing assets	7,616	1,332	20,978	20,061	1,358	-	51,345
Cash	1,871	-	-	-	-	-	1,871
Property and equipment	-	-	-	-	-	7,484	7,484
Current income tax asset	496	-	-	-	-	-	496
Other assets	230	462	-	-	1,270	267	2,229
TOTAL ASSETS	10,213	1,794	20,978	20,061	2,628	7,751	63,425
LIABILITIES							
Loans from banks and other financial institutions	8,221	-	6,017	30,505	-	-	44,743
Other borrowed funds	-	2,762	-	-	-	-	2,762
Total interest bearing liabilities	8,221	2,762	6,017	30,505	-	-	47,505
Current income tax liability	499	-	-	-	-	-	499
Deferred tax liability	62	-	-	-	-	-	62
Other liabilities	218	-	170	-	-	-	388
TOTAL LIABILITIES	9,000	2,762	6,187	30,505	-	-	48,454
Liquidity gap	1,213	(968)	14,791	(10,444)	2,628	-	-
Interest sensitivity gap	(605)	(1,430)	14,961	(10,444)	1,358	-	-
Cumulative interest sensitivity gap	(605)	(2,035)	12,926	2,482	3,840	-	-
Cumulative interest sensitivity gap as a percentage of total assets	(1%)	(3%)	20%	4%	6%	-	-

As at 31 December 2006:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31December 2006 Total
ASSETS							
Deposits held with banks	45	-	14,730	2,092	-	-	16,867
Loans to customers	313	1,934	20,039	11,496	-	-	33,782
Total interest bearing assets	358	1,934	34,769	13,588			50,649
Cash	238	-	-	-	-	-	238
Property, plant and equipment	-	-	-	-	-	1,756	1,756
Deferred tax asset	-	-	-	-	-	21	21
Other assets	398	-	-	-	-	108	506
TOTAL ASSETS	994	1,934	34,769	13,588	-	1,885	53,170
LIABILITIES							
Loans from banks and other financial institutions	87	-	22,180	17,184	-	-	39,451
Total interest bearing liabilities	87	-	22,180	17,184	-	-	39,451
Current income tax liability	-	369	-	-	-	-	369
Other liabilities	20	41	32	-	-	-	93
TOTAL LIABILITIES	107	410	22,212	17,184	-	-	39,913
Liquidity gap	887	1,524	12,587	(3,596)	-	1,885	
Interest sensitivity gap	271	1,934	12,589	(3,596)	-	-	
Cumulative interest sensitivity gap	271	2,205	14,794	11,198	11,198		
Cumulative interest sensitivity gap as a percentage of total Assets	1%	4%	28%	21%	21%		

An analysis of the liquidity and interest rate risks of financial liabilities is presented in the table, which summarizes the remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Group can be required to pay. Effective interest rate is estimated as at 31 December 2007 and 2006, respectively.

	Weighted average effective interest rate, %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2007 Total
Loans from banks and other financial institutions	9.79	8,547	585	8,416	37,230	-	54,778

	Weighted average effective interest rate, %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2006 Total
Loans from banks and other financial institutions	10.93%	452	728	24,816	20,409	-	46,405

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 majority of the Fund'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 Fund 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 Fund 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 Fund.

	2007			2006		
	GEL	USD	Other Currencies	GEL	USD	Other Currencies
ASSETS						
Deposits held with banks	5%	5%	5%	10%	-	10%
Loans to customers	33%	22%	-	44%	28%	-
LIABILITIES						
Due to banks and other financial institutions	10%	10%	9%	14%	10%	8%

Market Risk

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

The Group is exposed to interest rate risks as 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 board of directors 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 board of directors conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

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

Interest rate sensitivity

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Treasury Department 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 +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
Assets:				
Due from banks	72	(72)	15	(15)
Loans to customers	741	(741)	435	(435)
Liabilities:				
Due to banks	(839)	839	(388)	388
Net impact on profit before tax	(26)	26	62	(62)

Impact on net assets:

	As at 31 December 2007		As at 31 December 2006	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
Assets:				
Due from banks	58	(58)	12	(12)
Loans to customers	593	(593)	348	(348)
Liabilities:				
Due to banks	(671)	671	(310)	310
Net impact on profit before tax	(20)	20	50	(50)

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 board of directors 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.

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 = 2.3315 GEL	Other currency	31 December 2007 Total
ASSETS					
Cash	1,799	53	19	-	1,871
Deposits held with banks	0	8,143	1,166	-	9,309
Loans to customers	20,677	21,359	-	-	42,036
Property, plant and equipment	7,484	-	-	-	7,484
Current income tax asset	496	-	-	-	496
Other assets	2,163	61	-	5	2,229
TOTAL ASSETS	32,619	29,616	1,185	5	63,425
LIABILITIES					
Loans from banks and other financial institutions	10,072	33,217	1,454	-	44,743
Other borrowed funds	2,762	-	-	-	2,762
Current income tax liability	499	-	-	-	499
Deferred tax liability	62	-	-	-	62
Other liabilities	324	64	-	-	388
TOTAL LIABILITIES	13,719	33,281	1,454	-	48,454
OPEN BALANCE SHEET POSITION	18,900	(3,665)	(269)	5	

As at 31 December 2006:

	GEL	USD 1USD= 1.714 GEL	EUR EUR 1 = 2.256 GEL	Other currency	31 December 2006 Total
ASSETS					
Cash	208	11	19	-	238
Deposits held with banks	-	12,443	4,424	-	16,867
Loans to customers	33,755	27	-	-	33,782
Property and equipment	1,756	-	-	-	1,756
Deferred tax asset	21	-	-	-	21
Other assets	342	128	36	-	506
TOTAL ASSETS	36,082	12,609	4,479	-	53,170
LIABILITIES					
Loans from banks and other financial institutions	16,885	15,863	6,703	-	39,451
Current income tax liability	369	-	-	-	369
Other liabilities	93	-	-	-	93
TOTAL LIABILITIES	17,347	15,863	6,703	-	39,913
OPEN BALANCE SHEET POSITION	18,735	(3,254)	(2,224)	-	

Currency risk Sensitivity

The following table details the Group's Sensitivity to a 5% increase and decrease in the USD against the GEL. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the 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 5% 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 +5%	GEL/USD -5%	GEL/USD +5%	GEL/USD -5%
Impact on profit or loss	(40)	40	(34)	34
Impact on net assets	(32)	32	(27)	27

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.

