MICROFINANCE ORGANIZATION

GEORGIAN CREDIT LLC

Financial statements

Together with the Auditor's Report

Year ended 31 December 2010

Contents:

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report set out on page 4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Microfinance Organization Georgian Credit LLC (hereinafter - the company).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company at 31 December 2010 and 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 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 financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company 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 Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Company operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2010 were approved on behalf of the management on ___________________ 2011 by:

Director	___________________________	G.Naskidashvili
Chief Accountant	___________________________	N.Begeluri

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Microfinance Organization Georgian Credit LLC

Report on the Financial Statements

We have audited the accompanying financial statements of the Microfinance Organization Georgian Credit LLC (hereinafter - the Company), which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 about 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 financial statements present fairly, in all material respects the financial position of Microfinance Organization Georgian Credit LLC as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO LLC

8 April 2011

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

(In GEL)

	Note	2010	2009
Interest income	17	1,211,877	469,626
Interest expenses	17	(463,972)	(153,671)
Net interest income		747,905	315,955
Loan provision expenses	6	(53,139)	4,167
Loans written off	18	(147,995)	4,984
Net interest income after provision for loan		546,771	325,106
Income (loss) from exchange rate difference	19	29,747	(3,407)
Fee and commission income	20	95,510	13,685
Gross profit		672,028	335,384
Operating expenses	21	(11,308)	(3,609)
Administrative expenses	22	(515,463)	(232,825)
Profit from operations		145,257	98,950
Other income/expenses net	23	19,467	(15,511)
Profit before income tax		164,724	83,439
Income tax expenses	24	(33,440)	(11,229)
Net profit		131,284	72,210
Other comprehensive income		-	-
Total comprehensive income (loss) for the period		131,284	72,210

Director ____________________ G.Naskidashvili

Chief Accountant ____________________ N.Begeluri

Notes on pages 9-37 are the integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

(In GEL)

	Note	2010	2009
Assets			
Cash and cash equivalents	5	563,528	325,130
Loan to customers	6	3,775,134	1,147,800
Investment property	7	185,323	95,701
Property, plant and equipment	8	507,098	436,348
Intangible assets	9	16,664	15,794
Tax asset	10,16	23,767	22,354
Inventories		2,065	-
Other assets	11	60,994	6,302
		5,134,573	2,049,429
Liabilities and equity			
Liabilities			
Deferred tax liability	12	50,483	17,043
Borrowings	13	4,051,961	1,090,545
Tax payable	14,16	11,045	33,390
Other liabilities	15	12,009	6,934
		4,125,498	1,147,912
Equity			
Statutory capital		725,546	749,273
Retained earnings	16	283,529	152,244
		1,009,075	901,517
		5,134,573	2,049,429

Director ______________________ G.Naskidashvili

Chief Accountant ______________________ N.Begeluri

Notes on pages 9-37 are the integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

(In GEL)

	Note	Statutory Capital	Retained Earnings	Total
Balance at 31 December 2008		250,000	106,289	356,289
Prior period error	17		(26,255)	(26,255)
Balance at 31 December 2008		250,000	80,034	330,034
Addition to share capital		499,273		499,273
Total comprehensive income (loss) for the period			72,210	72,210
Balance at 31 December 2009		749,273	152,244	901,517
Withdraw of share capital		(23,727)		(23,727)
Total comprehensive income (loss) for the period			131,284	131,284
Balance at 31 December 2010		725,546	283,528	1,009,074

Director ______________________ G.Naskidashvili

Chief Accountant ______________________ N.Begeluri

Notes on pages 9-37 are the integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

(In GEL)

	Note	2010	2009
Cash flows from operating activities:			
Loss/(profit) before income tax		164,724	83,440
Adjustment for:			
Depreciation of fixed and intangible assets	8,9	31,254	16,113
Gain/loss from realization of fixed assets	8	513	-
Loan provision expenses and written off	6,18	201,134	(9,151)
Gain/loss from exchange rate differences		(41,014)	-
Interest expenses	17	463,972	153,671
Interest income	17	(1,211,877)	-
Cash flows from operating activities before changes in working capital		(391,294)	244,073
Movements in working capital			
Decrease/(increase) in loans to customers		(1,549,524)	57,799
Decrease/(increase) in tax asset		(1,413)	
Decrease/(increase) in inventories		(2,065)	
Decrease/(increase) in other assets		(54,998)	(11,558)
Increase/(decrease) in other liabilities		5,093	3,118
Increase/(decrease) in borrowings		4,567,787	
Increase/(decrease) in tax payable		(22,345)	2,729
Deferred tax asset/liability		-	-
Cash inflow from operating activities		2,942,535	52,088
Interest paid		(387,803)	(170,345)
Net cash flows from operating activities carried forward		2,163,438	125,816
Investing activities			
Purchase of property, plant and equipment		(98,015)	(409,865)
Proceeds from sale of property, plant and equipment		34,798	-
Purchase of intangible assets		(4,452)	(2,342)
Purchase of investment property		(125,340)	-
Net cash outflow from investing activities		(193,009)	(412,207)
Cash flows from financing activities:			
Repayment of borrowings		(1,700,820)	409,382
Bounds		-	(355,000)
Effect of changes in foreign exchange rate on cash and cash equivalents		(7,484)	-
Statutory capital		(23,727)	499,273
Net cash outflow from financing activities		(1,732,031)	553,655
Net Increase/(decrease) in cash and cash equivalents		238,398	267,264
Cash and cash equivalents at beginning of year		325,130	57,866
Cash and cash equivalents at end of year		563,528	325,130

Director ______________________ G.Naskidashvili

Chief Accountant ______________________ N.Begeluri

Notes on pages 9-37 are the integral part of these financial statements.

1. General information

Microfinance Organization Georgian Credit LLC represents Georgian microfinance organization. Main objectives of the fund are support and development of micro, small and medium business to improve the social and economical conditions in Georgia and ensuing small entrepreneurs by fast, easy and high-grade financial services.

Scope of Activities:

- Granting Micro-loans, including consumers, pawnshop, mortgage, unsecured, group and any other loans (credits) to legal entities and natural persons;
- Investing in government and public securities;
- Implementing of money transfer
- Discharging the function of an insurance agent;
- Providing consultations as regards to micro-crediting;
- Obtaining loans (credits) from resident and non-resident legal entities and natural persons;

The Company was founded on 12 September 2006. The initial founders were Business Management Bureau Ltd and Mamuka Kajrishvili. The initial charter capital was defined in 250,000GEL with respective shares between the two parties – 75% and 25%.

On 3 July 2009 the Company underwent reorganisation and instead of Business Management Bureau Ltd the founders of the Company were determined: Consulting Group GT Ltd and Baad Group Ltd. Charter capital remained the same, but the shares were allocated as follows: Consulting Group GT Ltd – 37.5%, Baad Group Ltd – 37.5% and Mamuka Kajrishvili – 25%.

As a result of second reorganization on 3 November 2009 the founder of the Company became EMIC Invest GbR – a company acting under German law incorporated in Germany. Charter capital was defined in 749,273 GEL and allocated in following shares: Consulting Group GT Ltd – 18.375%, Baad Group Ltd – 18.375%, Mamuka Kajrishvili – 12.25% and EMIC Invest GbR – 51%.

As the result of third reorganization on 30 December 2010 charter capital was defined 725,546 GEL and allocated in following shares: EMIC Invest GbR – 81,63%, Dimitri Gozalishvili – 18,37%.

The Company has a head office in Tbilisi and two branches. The address of the Company is 30 Kazbegi Avenue, Tbilisi 0177, Georgia.

As for December 31, 2010 and 2009 the shareholders of the Company are as follows:

Share capital	2010	2009
Shareholder	%	%
Mamuka Kajrishvili	-	12.25%
Baad Group LTD	-	18.38%
Consulting Group GT LTD	-	18.38%
EMIC Invest GbR	81.63%	51%
Dimitri Gozalishvili	18.37%	-

2. Adoption of new IFRSs

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

Standard/ Interpretation	Content	Applicable for financial years beginning on/after
IAS 1	Presentation of financial statements	1 January 2010
IAS 27	Consolidated and separate financial statements	1 January 2010
IAS 38	Intangible assets	1 January 2010
IFRIC 9	Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement	1 January 2010
IFRS 3	Business combinations	1 January 2010
IFRS 5	Measurement of non-current assets classified as held for sale	1 January 2010
IFRIC 17	Distribution of non-cash assets to owners	1 January 2010
IFRIC 18	Transfers of assets from customers	1 January 2010
IFRIC 16	Hedges of a net investment in a foreign operation	1 January 2010
IAS 36	Impairment of assets	1 January 2010
IFRS 2	Group cash-settled share-based payment transactions	1 January 2010

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Company apply IAS 1 (amendment), but Company does not have any such cases.
- IAS 27 (revised), 'Consolidated and separate financial statements'. The revised standard requires the

effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The amendment does not have an impact on the Company's financial statements.

- IAS 38 (amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the Companying of intangible assets as a single asset if each asset has similar useful economic lives. The amendment does not have an impact on the Company's financial statements.
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety. IFRIC 9 does not have an impact on the Company's financial statements.
- IFRS 3 (revised), 'Business combinations'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquire either at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets. All acquisition-related costs should be expensed. The amendment does not have an impact on the Company's financial statements.
- IFRS 5 (amendment), 'Measurement of non-current assets classified as held for sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5, 'Non-current assets held for sale and discontinued operations' specifies the disclosures required in respect of non-current assets (or disposal Company's) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly IAS1 paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty). The amendment does not have an impact on the Company's financial statements.
- IFRIC 17, 'Distribution of non-cash assets to owners'. The interpretation is part of the IASB's annual improvements project published in April 2009. It provides guidance on accounting for arrangements whereby an entity distributes noncash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Company is not impacted by applying IFRIC 17.
- IFRIC 18, 'Transfers of assets from customers', was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property,

plant and equipment and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. The Company is not impacted by applying IFRIC 18.

- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group. IAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. IFRIC 16 does not have an impact on the Company's financial statements.
- IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The amendment does not have an impact on the Company's financial statements.
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective form 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The amendment does not have an impact on the Company's financial statements.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted.

The Company's assessment of the impact of these new standards and interpretations is set out below.

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU. The amendment will not result in a material impact on the Company's financial statements.
- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the Company. The amendment is not expected to have an impact on the Company's financial statements.
- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The amendment is not expected to have an impact on the Company's financial statements.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the Company's financial statements.
- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The amendment is not expected to have an impact on the Company's financial statements.

3. Critical accounting estimates and judgments

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

• Fair value of financial instruments. Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, there are determined using variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but if it is not feasible, a degree of judgment is required in establishing a fair value.

• Useful lives of intangible assets and property, plant and equipment. Intangible assets and property, plant and equipment are amortized or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

• Initial recognition of related party transactions. In the normal course of business the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. In management judgment, at December 31, 2010 and 2009, there were no loans and advances at other then market conditions. Terms and conditions of related party balances are disclosed in Note 20.

• Income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the company's belief that its tax return positions are supportable, the company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result company minimizes the risks related to this fact. The company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

• Legal proceedings. The Company only recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realization of any contingent liabilities not currently recognized or disclosed in the financial statements could have a material effect on the Company's financial position. Application of these accounting principles to legal cases requires the Company's management to make determinations about various factual and legal matters beyond its control. The Company reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Company's management as to how it will respond to the litigation, claim or assessment.

4. Summary of significant accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs"), and are in accordance with IFRS as issued by the IASB.

The Organization keeps its books and records in Georgian lary in accordance with the requirements to the accounting in Georgia. The aforesaid financial statements are prepared on the basis of the Organization's accounting records, which are respectively adjusted and re-classified for the reliable presentation in accordance with IFRS.

The financial statements have been prepared on the historical cost basis. The reporting period for the Organization is the calendar year from January 1 to December 31.

Foreign currency translation

The functional currency of the company is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Company's presentation currency is the national currency of Georgia, Lari.

Monetary assets and liabilities are translated into functional currency at the official exchange rate for the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to nonmonetary items.

At 31 December 2010 and 2009 the closing rate of exchange used for translating foreign currency balances was:

	Official rate of the National Bank of Georgia		
	USD	EUR	GBP
Exchange rate as at 31.12.09	1,6858	2,4195	2,6735
Exchange rate as at 31.12.10	1,7728	2,3500	2,7393
Average exchange rate for 2009	1,6705	2,3305	2,6143
Average exchange rate for 2010	1,7826	2,3644	2,7548

Financial Instruments

Initial recognition. Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets. The Company determines the classification of its financial assets upon initial recognition.

Fair value through profit or loss

This category comprises only in-the-money derivatives. They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income in the finance income or expense line Other than derivative financial instruments which are not designated as hedging instruments, company does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Held to maturity investments

Non derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the company has positive intention and ability to hold them upon maturity. The Company does not have any assets as being classified held to maturity.

Loans to customers

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Provision for loan losses

The Company assesses at the end of each reporting period whether there is any objective evidence that a loans (principal amount and accrued interest) and receivables are impaired. If any such evidence exists, the Company determines the amount of any provision expenses. If there is objective evidence that an provision expenses on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of a provision account. The amount of the loss is recognized in profit or loss. 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 (such as an improvement in the debtor's credit rating), the previously recognized provision expenses is reversed by adjusting a provision account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

The provision for loan loss is determined by applying predicted loss percentages to aged loans, grouped by lateness of payments. A loan becomes late as soon as a scheduled instalment is missed.

Percentage for loan loss provision is as follows:

Loan Qualification	Provisions rate	Overdue Days
Ordinary	0%	1-30
Significant	5%	30-45
Unordinary	25%	45-120
Doubtful	50%	120-180
Bad	100%	180

Loans write-off policy

Company writes off loans only in the following cases:

- Owner of business dies and business stops functioning.
- Court receives appropriate decision.
- Delinquent loans for more than 180 days.

Write-offs are taken out of the outstanding loans to customers and deducted from the provisions for loan loss.

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally the company's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities as well as corporate bonds. They are carried at fair value with changes in fair value generally recognised in other comprehensive income and accumulated in the available-for-sale reserve; Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive income, is recognised in profit or loss.

Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available-for-sale reserve. On sale, the cumulative gain or loss recognised in other comprehensive income is reclassified from the available-for-sale reserve to profit or loss.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

Derecognition of financial assets

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

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, non-restricted cash on current accounts in banks, and non-restricted cash on bank deposits with original maturity of less than 3 months.

Advances to customers

Advances to customers are recorded when the company advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Advances to customers are carried at amortised cost. When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the company considers whether a financial asset is impaired is its overdue status and reliability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- Any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

- The borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;

- The borrower considers bankruptcy or a financial reorganisation;

- There is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;

- The value of collateral significantly decreases as a result of deteriorating market conditions.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience and the success of recovery of overdue amounts. Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Company believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is probable that in certain periods the Company can incur losses greater than recorded impairment.

Held for sale assets

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

Property, plant and equipment and intangible assets

All property plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Organization and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation, based on a component approach, is calculated using the straight-line method to allocate the cost over the asset’s estimated useful lives, as follows:

Group	Useful life (year)
Furnishing the leased property	3
Furniture and office equipment	7
Computer and communication equipment	4
Buildings	50

The month of acquisition is considered as a whole month for depreciation purpose and the month when property plant and equipment is sold is not included in the calculation of depreciation.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Impairment of Assets

The Organization's accompanying financial statements reflect the effect of the requirements of IAS 36 "Impairment of assets" in force for the reporting periods starting from January 1, 2005 and after this date. The above standard stipulates that the cost of fixed assets and intangibles should be revised when indications of possible impairment of the asset cost exist.

According to the requirements of IAS 36 the asset cost should be calculated as the higher of the net selling price or profitability of the asset use. The net selling price is the amount obtainable from the sale of an asset to non-related parties in an arm’s length transaction less direct sales expenses. Profit from an asset use is the current value of expected cash flows from an asset use during its useful life and its disposal.

The above standard stipulates that during determination of an asset use profitability the Organization should apply expected cash flows which should reflect current state of an asset and present qualitative estimation made by the management regarding the totality of economic conditions existed during remaining useful life of an asset. Expected cash flows should be discounted at the rate that reflects current market assessments of the value of money in time and risks associated with the asset.

Intangible assets

Intangible assets are stated at the amount initially recognized; less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Intangible assets with a finite life are amortized on a straight-line basis over their expected useful lives, as follows:

Group	Useful life (year)
Computer programmes	7
Other intangible assets	7

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity where there is an intention to settle the balances on a net basis.

Borrowings

Borrowings 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 statement of operations over the period of the borrowings, using the effective interest method.

Contingencies

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

Recognition of income and expense

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

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Post balance-sheet events

Post-balance sheet events and events before the date of financial statements authorization for issue that provide additional information about the Company's financial statements are reported in the financial statements. Post-balance sheet events that do not affect the financial position of the Company at the balance sheet date are disclosed in the notes to the financial statements when material.

Staff costs and related contributions

Wages, salaries, bonuses are accrued in the year in which the associated services are rendered by the employees of the Company.

Provisions, Contingent Liabilities and Contingent Assets

Contingent liabilities are not reflected in the financial statements, except for the cases when the outflow of economic benefits is likely to origin and the amount of such liabilities can be reliably measured. The information on contingent liabilities is disclosed in the Notes to the financial statements with the exception of cases, when the outflow of economic benefits is unlikely.

Contingent assets are not reflected in the financial statements, but the information on them is disclosed when inflow of economic benefits is possible. If economic benefits are sure to occur, an asset and related income are recognized in the financial statements for the period, when the evaluation change occurred.

A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation. A legal obligation is an obligation that derives from:

(a) A contract (through its explicit or implicit terms);

(b) Legislation; or

(c) Other operation of law.

A constructive obligation is an obligation that derives from an entity's actions where:

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

5. Cash and cash equivalents

	2010	2009
Cash on hand	102,375	4,798
Cash at bank (in GEL)	2,189	28,121
Cash at bank (in other currencies)	458,964	292,211
	563,528	325,130

6. Loan to customers

	2010	2009
Originated loans to customers	3,729,549	1,121,617
Accrued interest	114,997	42,457
	3,844,546	1,164,074
Less: allowance for impairment losses	(69,412)	(16,274)
	3,775,134	1,147,800

Analysis by sector:	2010	2009
Sustainable loan	2,072,325	315,030
Free loan	937,989	701,293
Consumer loan	641,431	19,757
Lombard loan	191,462	127,994
Agricultural installment	1,338	-
	3,844,545	1,164,074
Less: allowance for impairment losses	(69,411)	(16,274)
	3,775,134	1,147,800

7. Investment property

Historical cost	***Land***	***Buildings***	***Total***
Historical cost 31.12.2008	34,062	46,000	80,062
Additions	16,821	-	16,821
Disposals	-	-	-
Historical cost 31.12.2009	50,883	46,000	96,883
Additions	96,462	28,878	125,340
Disposals	(34,798)		(34,798)
Historical cost 31.12.2010	112,547	74,878	187,425
Accumulated depreciation			
Accumulated depreciation 31.12.2008	-	(262)	(262)
Depreciation 2009	-	(920)	(920)
Accumulated depreciation of disposals 2009	-	-	-
Accumulated depreciation 31.12.2009	-	(1,182)	(1,182)
Depreciation 2010	-	(920)	(920)
Accumulated depreciation of disposals 2010	-	-	-
Accumulated depreciation 31.12.2010	-	(2,102)	(2,102)
Net book value			
Net book value 31.12. 2009	50,883	44,818	95,701
Net book value 31.12. 2010	112,547	72,776	185,323

8. Property, plant and equipment

Historical cost	Buildings	Furniture and office equipment	Computer and communication equipment	Vehicles	Office maintenance	Total
Historical cost 31.12.2008	-	31,966	18,732	-	4,658	55,356
Additions	403,067	3,356	3,440	-	-	409,863
Disposals	-	-	-	-	-	-
Historical cost 31.12.2009	403,067	35,322	22,172	-	4,658	465,219
Additions	-	47,230	39,528	11,258	-	98,016
Disposals	-	-	(4,928)	-	-	(4,928)
Historical cost 31.12.2010	403,067	82,552	56,772	11,258	4,658	558,307
Accumulated depreciation						
Accumulated depreciation 31.12.2008	-	(7,390)	(8,163)	-	(1,042)	(16,595)
Depreciation 2009	(651)	(4,870)	(5,203)	-	(1,553)	(12,277)
Accumulated depreciation of disposals 2009	-	-	-	-	-	-
Accumulated depreciation 31.12.2009	(651)	(12,260)	(13,366)	-	(2,595)	(28,872)
Depreciation 2010	(8,061)	(9,220)	(7,523)	(395)	(1,553)	(26,752)
Accumulated depreciation of disposals 2010	-	-	4,415	-	-	4,415
Accumulated depreciation 31.12.2010	(8,712)	(21,480)	(16,474)	(395)	(4,148)	(51,210)
Net book value						
Net book value 31.12. 2009	402,416	23,062	8,807	-	2,063	436,348
Net book value 31.12. 2010	394,355	61,072	40,298	10,863	510	507,098

9. Intangible assets

Historical cost	***Computer program***	***Other intangible assets***	Total
Historical cost 31.12.2008	18,435	1,820	20,255
Additions	1,180	1,250	2,430
Disposals	-	(140)	(140)
Historical cost 31.12.2009	19,615	2,930	22,545
Additions	2,652	1,800	4,452
Disposals	-	-	-
Historical cost 31.12.2010	22,267	4,730	26,997
Accumulated depreciation			
Accumulated depreciation 31.12.2008	(3,506)	(381)	(3,887)
Depreciation 2009	(2,635)	(280)	(2,915)
Accumulated depreciation of disposals 2009	-	51	51
Accumulated depreciation 31.12.2009	(6,141)	(610)	(6,751)
Depreciation 2010	(3,064)	(518)	(3,582)
Accumulated depreciation of disposals 2010	-	-	-
Accumulated depreciation 31.12.2010	(9,205)	(1,128)	(10,333)
Net book value			
Net book value 31.12. 2009	13,474	2,320	15,794
Net book value 31.12. 2010	13,062	3,602	16,664

10. Tax asset

	2010	2009
Income tax asset	22,354	22,354
Social tax asset	1,413	-
	23,767	22,354

11. Other assets

	2010	2009
Receivables from accountable persons	38,280	1,620
Money transfers	16,675	(13)
Receivables from employees	113	5
Commission fees	115	128
Other assets	5,811	4,562
	60,994	6,302

12. Deferred tax payable

	2010	2009
At 1 January	(17,043)	(5,814)
Recognized in profit and loss		
Tax income (expense)	(33,440)	(11,229)
At 31 December	(50,483)	(17,043)

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to equity
	2010	***2010***	***2010***	***2010***	***2010***
Property plant and equipment	-	(75,799)	(75,799)	(10,438)	-
Intangible assets	-	(175)	(175)	(129)	-
Tax loss carry-forwards	25,536	-	25,536	(22,873)	-
Tax asset/(liabilities)	25,536	(75,974)	(50,438)	(33,440)	-
Set off of tax	(75,974)	75,974	-	-	-
Net tax assets/(liabilities)	(50,438)	-	(50,438)	(33,440)	-

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to equity
	2009	***2009***	***2009***	***2009***	***2009***
Property plant and equipment	-	(65,452)	(65,452)	(59,638)	-
Intangible assets	-	-	-	-	-
Tax loss carry-forwards	48,409	-	48,409	48,409	-
Tax asset/(liabilities)	48,409	(65,452)	(17,043)	(11,229)	-
Set off of tax	(65,452)	65,452	-	-	-
Net tax assets/(liabilities)	(17,043)	-	(17,043)	(11,229)	-

13. Borrowings

	Interest rate	Currency	2010	2009
BTA bank JSC	17%	USD	1,889,194	-
Kor Standard Bank JSC	24%	USD	229,150	280,361
HSBC JSC	17%	USD	-	604
Basis bank JSC	17%	USD	-	297
			2,118,344	281,262
IMOGRUND	18%	EUR	-	363,283
			-	363,283
Nonresidents	15%	EUR	747,018	-
			747,018	-
Individuals	20%	USD	988,230	301,714
Individuals	20%	EUR	190,277	98,960
Individuals	22%	GEL	8,092	45,326
			1,186,599	446,000
			4,051,961	1,090,545

The Company has received loans from resident and non-resident individuals in various currencies and at various interest rates. The Note discloses the average interest rate according to the currencies of the received loans.

14. Tax payable

	2010	2009
Property tax payable	6,694	5,671
Personal income tax payable	4,351	3,233
Social tax payable	-	24,486
	11,045	33,390

15. Other liabilities

	2010	2009
Accounts payable to suppliers	4,702	4,113
Accounts payable to employees	5,240	-
Other liabilities	2,067	2,821
	12,009	6,934

16. Prior period error

	As previously stated 2008	Restatement	As restated 2008
Retained earnings 31 December 2008	80,034	(26,255)	106,289
Tax payable, asset	(8,676)	(26,255)	17,579

The Company corrects prior period material errors retrospectively in the financial statements after their discovery that income tax liability in 2007 was overstated.

17. Interest income, expenses

Interest income, expenses for the year ended December 31, 2010 and 2009 can be presented as follows:

	2010	2009
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
Interest income on impaired financial assets	417,949	46,275
Interest income on unimpaired financial assets	793,928	423,347
Total interest income	1,211,877	469,622
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	1,202,254	466,581
Other	9,623	3,041
Total interest income on financial assets recorded at amortized cost	1,211,877	469,622
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on borrowings	(463,972)	(153,667)
Total interest expense	(463,972)	(153,667)
Net interest income before recovery for impairment losses on interest bearing financial assets	747,905	315,955

18. Loans written off

	2010	2009
Loans written off	(164,501)	(16,506)
Loans recovered	16,506	21,490
	(147,995)	4,984

19. Income (loss) from exchange rate difference

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

	2010	2009
Income from exchange rate	479,619	73,476
Loss from exchange rate	(449,872)	(76,883)
Income (loss) from exchange rate	29,747	(3,407)

20. Fee and commission income

Fee and commission income for the year ended December 31, 2010 and 2009 can be presented as follows:

	2010	2009
Commission income from issued loans	95,333	13,443
Commission income from utility taxes	162	197
Commission income from money transfers	15	45
	95,510	13,685

21. Operating expenses

Operating expenses for the year ended December 31, 2010 and 2009 can be presented as follows:

	2010	2009
Bank fees	(7,790)	(3,609)
Other expenses	(3,005)	-
Assets written off	(513)	-
	(11,308)	(3,609)

22. Administrative expenses

Administrative expenses for the year ended December 31, 2010 and 2009 can be presented as follows:

	2010	2009
Salaries and bonuses	(288,972)	(123,952)
Rent expenses	(40,808)	(37,462)
Depreciation and amortization expenses	(31,255)	(16,112)
Audit and consulting service fees	(27,517)	(20,964)
Property tax expenses	(13,272)	(2,709)
Communication expenses	(13,175)	(4,140)
Professional service fees	(15,164)	(7,106)
Maintenance expenses	(12,001)	-
Utility expenses	(9,033)	(3,764)
Security expenses	(5,957)	(2,983)
Insurance expenses	(7,059)	-
Business trip expenses	(7,020)	-
Stationary	(6,648)	(1,060)
Computer expenses	(4,802)	(2,489)
Commercial expenses	(1,680)	(2,631)
Revenue tax expenses	(316)	-
Income tax expenses	(449)	-
Other administrative expenses	(30,335)	(7,453)
	(515,463)	(232,825)

23. Other income, expenses

Net other income/expenses for the year ended December 31, 2010 and 2009 can be presented as follows:

	2010	2009
Gain from disposal of land	15,963	-
Other income	3,504	1,797
Other expenses	-	(17,308)
	19,467	(15,511)

24. Income tax expenses

Income tax expenses for the year ended December 31, 2010 and 2009 can be presented as follows:

Profit tax expense	2010	2009
Current tax	-	-
Effect of temporary differences	(33,440)	(11,229)
Effect of changes in tax rate	-	-
Profit tax expense	(33,440)	(11,229)

Profit tax expense	2010	2009
Profit before profit tax	128,170	83,439
Applicable tax rate	15%	15%
Theoretical income tax	(19,226)	(12,516)
Effect of changes in not recognized deferred tax and tax effect of expenses that are not include for tax purposes	(14,215)	1,287
Profit tax expense (income)	(33,440)	(11,229)

25. Financial instruments – risk management

The Company is exposed through its operations to the following financial risks:

- Credit risk
- Liquidity risk
- Interest rate risk
- Currency risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Cash at bank;
- Issued loans portfolio (with fixed-rate);
- Other asset;
- Borrowings (with fixed-rate);
- Other liabilities.

General objectives, policies and processes

The Management has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Management is to set polices that seek to reduce risks as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the lending and other transactions with counterparties giving rise to financial assets.

Maximum exposure of credit risk

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

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

As at December 31, 2010:

	Maximum exposure
Loans to customers	3,775,134

As at December 31, 2009:

	Maximum exposure
Loans to customers	1,147,800

Market Risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

Market risk arises from the Company's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) and foreign exchange rates (currency risk).

Interest Rate Risk

The interest rate risk is the risk (with variable value) related to the interest-bearing assets – loans, because of the variable rate. The Company gives all credits at fixed interest rate and respectively is never exposed to the risk of losing even small part of the interest receivables due to the market interest rate fall.

Foreign Exchange Risk

Foreign exchange risk arises through changing the value of the currency against the other currency. From 2006 the Company takes and gives loans both in operating currency and US dollars, so the exchange rate risk plays vital role in determining the financial risks of the Company. However, the fact that the Company receives and gives loans are mostly in the same currency helps to reduce the exchange rate risk.

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they actually fall due. The Management controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period. In order to manage liquidity risk, the Company performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process. An analysis of the liquidity and interest rate risks is presented in the following table:

As at 31 December 2010	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	2010 Total
Assets							
Loan to customers		265,350	671,717	944,261	1,893,806		3,775,134
Total interest bearing financial assets	-	265,350	671,717	944,261	1,893,806	-	3,775,134
Cash and cash equivalents	563,528	-	-	-	-	-	563,528
Total financial assets	563,528	265,350	671,717	944,261	1,893,806	-	4,338,662
Liabilities							
Borrowings	867	-	1,338,479	668,956	2,044,526	-	4,051,961
Total interest bearing financial liabilities	867	-	1,338,479	668,956	2,044,526	-	4,051,961
Total financial liabilities	867	-	1,338,479	668,956	2,044,526	-	4,051,961
Net liquidity gap	562,661	265,350	(666,762)	275,305	(150,720)	-	
Cumulative liquidity gap	562,661	828,011	161,249	436,554	285,834	285,834	
Interest sensitivity gap	(867)	265,350	(666,762)	275,305	(150,720)	-	
Cumulative interest sensitivity gap	(867)	264,483	(402,279)	(126,974)	(277,694)	(277,694)	
Cumulative interest sensitivity gap as a percentage of total assets	0%	6%	-9%	-3%	-6%	-6%	

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 Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

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

	GEL	USD USD 1 = 1.7728 GEL	EUR USD 1 = 2.35 GEL	2010
Financial assets				
Loan to customers	281,682	3,486,330	7,122	3,775,134
Cash and cash equivalents	11,742	480,542	71,244	563,528
Total financial assets	293,424	3,966,872	78,366	4,338,662
Financial liabilities				
Borrowings	8,092	3,106,574	937,295	4,051,961
Total financial liabilities	8,092	3,106,574	937,295	4,051,961
Open balance sheet position	285,332	860,298	(858,929)	

	GEL	USD USD 1 = 1.7728 GEL	EUR USD 1 = 2.35 GEL	2009
Financial assets				
Loan to customers	232,648	864,209	50,943	1,147,800
Cash and cash equivalents	28,821	16,161	280,148	325,130
Total financial assets	261,469	880,370	331,091	1,472,930
Financial liabilities				
Borrowings	45,326	582,976	462,243	1,090,545
Total financial liabilities	45,326	582,976	462,243	1,090,545
Open balance sheet position	216,143	297,394	(131,152)	

Currency risk sensitivity

The following table details the Company'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.

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

	USD impact		EUR impact	
	GEL/USD + 10%	GEL/USD – 10%	GEL/EUR + 10%	GEL/EUR – 10%
Profit/(loss)	86,030	(86,030)	(85,893)	85,893

	USD impact		EUR impact	
	GEL/USD + 10%	GEL/USD – 10%	GEL/EUR + 10%	GEL/EUR – 10%
Profit/(loss)	29,739	(29,739)	(13,115)	13,115

Capital disclosures

The Company's objectives when maintaining capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders; and
- To provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

26. 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 Company (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Company that gives then significant influence over the Company; and that have joint control over the Company;

b) Members of key management personnel of the Company or its parent;

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Company and other related parties are disclosed below:

		2010	
Balance sheet caption	Relationship	Related party transactions	Total category as per the financial statements caption
Loan to customers			
Individuals	Employee	25,388	3,775,134
		25,388	3,775,134
Other assets			
Individuals	Employee	113	60,994
		113	60,994
Other liabilities			
Individuals	Employee	5,240	12,009
		5,240	12,009

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

	2010	
Key management personnel compensation	Related party transactions	Total category as per the financial statements caption
Short-term employee benefits	68,598	288,972
	68,598	288,972

Included in the statement of comprehensive income for the year ended December 31, 2010 is the following amounts which were recognized in transactions with related parties:

		2010	
Income Statement caption	Relationship	Related party transactions	Total category as per the financial statements caption
Interest income			
Individuals	Employees	4,692	1,211,877
		4,692	1,211,877

27. Contingent asset

On 25 January 2011 Georgian Credit and Eristavi Legal Group formed an agreement on legal services. According to this agreement Eristavi Legal Group started an arbitration suit on collection against the Georgian Credit borrowers. According to the Article 5.2 of the Georgian law on “Micro-financing Organisations”, the amount of micro loan issued to an individual or group of individuals connected to that individual is limited to GEL50,000 (fifty thousand). The borrowers are connected with each other by pledge agreement. Total amount of receivables is 115,609.35 USD.

The lawsuit is currently in progress and no legal implications have yet been established.

28. Post balance sheet events

Post Balance sheet events occurred in the Company:

Non-adjusting events:

On 15 March 2011 the Company was registered as the joint stock company, the charter capital remains unchanged. Initial issue of ordinary shares was 725,546, with nominal value of GEL1. Share capital was divided 81,625% and 18,375 % respectively.

Share capital	2010
Shareholder	%
EMIC Invest GbR	81.63%
Dimitri Gozalishvili	18.37%