

Microfinance Organization Georgian Credit LLC

Financial Statements

Together with the Auditor's Report

For the year ended 31 December 2009

Contents:

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS	3
INDEPENDENT AUDITOR’S REPORT	4
STATEMENT OF FINANCIAL POSITION	5
STATEMENT OF TOTAL COMPREHENSIVE INCOME	6
STATEMENT OF CHANGES IN EQUITY	7
CASH FLOW STATEMENT	8
NOTES TO THE FINANCIAL STATEMENTS	9
1. General information	9
2. Adoption of new IFRSs	9
3. Critical accounting estimates and judgments	11
4. Accounting policies	12
5. Financial instruments - risk management	20
6. Cash and cash equivalents	23
7. Loan portfolio	24
8. Prepaid taxes	25
9. Other current assets	26
10. Intangible assets	26
11. Property, plant, equipment	27
12. Investment property	28
13. Account payables	28
14. Bonds	28
15. Borrowings	28
16. Deferred tax liability	29
17. Statutory capital	29
18. Financial revenue	30
19. Loans written off/recovered	30
20. Administrative expenses	30
21. Other expenses	31
22. Income tax expenses	31
23. Contingencies	31
24. Going Concern Assumption	32

Microfinance Organization Georgian Credit LLC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS

As and for the year ended 31 December 2009

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 Organization).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Organization at 31 December 2009 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 Organization 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 Organization
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Organization, and which enable them to ensure that the financial statements of the Organization comply with IFRS
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Organization operates
- Taking such steps as are reasonably available to them to safeguard the assets of the Organization, and
- Preventing and detecting fraud and other irregularities

The financial statements for the year ended 31 December 2009 were approved on behalf of the management on _____ 2010 by:

Chief Executive Officer _____ G. Tutberidze

Chief Financial Officer _____ G. Naskidashvili

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 Microfinance Organization Georgian Credit LLC (hereinafter - the Organization), which comprise the balance sheet as at December 31, 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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.

Auditor's 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 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, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Zurab Lalazashvili

Managing Partner

28 May 2010

Microfinance Organization Georgian Credit LLC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

(In GEL)

	Note	2009	2008
Assets			
Cash and cash equivalents	6	325,130	57,866
Gross loan portfolio	7	1,093,787	1,135,237
Provision for loan losses	7	(16,274)	(20,441)
Net loan portfolio	7	1,077,513	1,114,796
Interest receivable		70,287	81,652
Prepaid taxes	8	16,348	17,579
Other current assets	9	6,302	11,565
Intangible assets	10	15,794	16,367
Property, plant, equipment	11	436,348	38,761
Investment property	12	95,701	79,800
Total Assets		2,043,423	1,418,386
Liabilities			
Accounts payable	13	6,934	3,816
Bonds	14	-	355,000
Interest payable		9,955	26,629
Tax payable		1,680	182
Borrowings	15	1,080,590	671,208
Deferred tax liability	16	17,043	5,814
Total Liabilities		1,116,202	1,062,649
Equity			
Statutory capital	17	749,273	250,000
Retained earnings		177,948	105,737
Total Equity		927,221	355,737
Total Liabilities and Equity		2,043,423	1,418,386

Chief Executive Officer _____ G. Tutberidze

Chief Financial Officer _____ G. Naskidashvili

Notes on pages 9-32 are the integral part of these financial statements.

Microfinance Organization Georgian Credit LLC

STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2009

(In GEL)

	Note	2009	2008
Financial revenue	18	483,311	474,838
Financial expenses		(153,671)	(143,121)
Financial margin		329,640	331,717
Changes in loan loss provision	7	4,167	37,031
Loans written off/recovered	19	4,984	35,662
Administrative expenses	20	(232,825)	(206,304)
Net-operating revenue and expenses		105,966	198,106
Other expenses	21	(19,120)	(55,590)
Net exchange gain/loss		(3,406)	(31,038)
Bad debt expenses		-	-
Net (loss/income)		83,440	111,478
Income tax expenses	22	(11,229)	(8,890)
Net profit		72,211	102,588
Other comprehensive income		-	-
Total comprehensive income (loss) for the period		72,211	102,588

Chief Executive Officer _____ G. Tutberidze

Chief Financial Officer _____ G. Naskidashvili

Notes on pages 9-32 are the integral part of these financial statements.

Microfinance Organization Georgian Credit LLC

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

(In GEL)

	Ordinary shares	Retained Earnings	Total
Balance at 31 December 2007	250,000	22,630	272,630
Paid Dividend		(19,480)	(19,480)
Total comprehensive income		102,587	102,587
Balance at 31 December 2008	250,000	105,737	355,737
Addition share capital	499,273		499,273
Total comprehensive income		72,211	72,211
Balance at 31 December 2009	749,273	177,948	927,221

Chief Executive Officer _____ G. Tutberidze

Chief Financial Officer _____ G. Naskidashvili

Notes on pages 9-32 are the integral part of these financial statements.

Microfinance Organization Georgian Credit LLC

CASH FLOW STATEMENT

For the year ended 31 December 2009

(In GEL)

	Note	2009	2008
Cash flows from operating activities			
Income (loss) before taxation		83,440	152,478
Adjustments to:			
Depreciation and amortization		16,113	12,126
Changes in loan loss provision	7	(4,167)	(37,031)
Loans written off/recovered		16,506	23,706
Interest expenses		153,671	143,121
Operating cash flows before working capital changes		265,563	294,400
Decrease (Increase):			
Loan portfolio		24,944	(540,928)
Accounts payable		3,118	3,107
Interest receivable		11,365	(27,965)
Other current assets		(11,558)	6,231
Taxes payable		2,729	(54,254)
Cash generated from operations		296,161	(319,409)
Paid interests		(170,345)	(123,171)
Paid dividends		-	(60,480)
Net cash provided from operating activities		125,816	(503,060)
Cash flows from investing activities			
Purchase of property, plant and equipment		(409,865)	(22,554)
Purchase of intangible assets		(2,342)	(6,604)
Net cash used in investing activities		(412,207)	(29,158)
Cash flows from financial activities			
Redemption of short-term loans		2,422	180,351
Redemption of long-term loans		406,960	(67,922)
Bonds		(355,000)	355,000
Addition share capital	17	499,273	-
Net cash used in financing activities		553,655	467,429
Net increase/decrease in cash and cash equivalents		267,264	(64,789)
Cash and cash equivalents at the beginning of the year		57,866	122,655
Cash and cash equivalents at the end of the year	6	325,130	57,866

Chief Executive Officer _____ G. Tutberidze

Chief Financial Officer _____ G. Naskidashvili

Notes on pages 9-32 are the integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

1. General information

Microfinance Organization Georgian Credit LLC represents Georgian micro finance 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 organisation 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 organization underwent reorganisation and instead of “Business Management Bureau” Ltd the founders of the organisation 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 organization became EMIC Invest GbR - a organization acting under German law incorporated in Germany. Charter capital was defined in 749,273GEL 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%.

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

2. Adoption of new IFRSs

Standards and amendments to existing standards effective 1 January 2009:

- IAS 1 (revised), ‘Presentation of financial statements’. The revised standard prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity.

All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period. The Organization has applied IAS 1 (revised) from 1 January 2009, and has elected to present solely a statement of comprehensive income. The adoption of this revised standard has not resulted in a significant change to the presentation of the Organization's performance statement, as the Organization has no elements of other comprehensive income.

- IFRS 7 (amendment) 'financial instruments: Disclosures'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the Organization's financial position or performance.

Standards, amendments and interpretations effective on 1 January 2009 but not relevant:

- IAS 23 (amendment), 'Borrowing costs'
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'
- IAS 39 and IFRIC 9 (amendments), 'Embedded derivatives' (effective for all periods ending on or after 30 June 2009)
- IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements'
- IAS 39 and IFRS 7 (amendments), 'Reclassification of financial assets'
- IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009)
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement' (effective from 1 July 2009)
- IFRS 1 (amendment), 'First-time adoption of IFRS', and IAS 27, 'Consolidated and separate financial statements'
- IFRS 2 (amendment), 'Share-based payment'
- IFRS 8, 'Operating segments'; and
- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009)
- IFRIC 15, 'Agreements for construction of real estates'
- IFRIC 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009); and
- IFRIC 18, 'Transfers of assets from customers' (effective from 1 July 2009)

Standards, amendments and interpretations that are not effective on 1 January 2009 and are not relevant for Organization:

- IFRS 1 (amendments), 'Additional exemptions for first-time adopters' (effective from 1

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

January 2010)

- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions' (effective from 1 January 2010)

'Improvements to IFRS' were issued in May 2008 and April 2009 respectively and contain numerous amendments to IFRS, which the IASB consider non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

3. Critical accounting estimates and judgments

The Organization 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.

- **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 Organization recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Organization's belief that its tax return positions are supportable, the Organization believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. As a result Organization minimizes the risks related to this fact. The Organization 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.
- **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.
- **Legal proceedings.** In accordance with IFRSs the Organization 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 Organization's financial position. Application of these accounting

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

principles to legal cases requires the Organization's management to make determinations about various factual and legal matters beyond its control. The Organization 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 Organization's management as to how it will respond to the litigation, claim or assessment.

4. 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.

Measurement and Presentation Currencies

Standing Interpretation Committee (hereinafter - SIC) included into the International Financial Reporting Standards Committee has accepted the interpretation SIC-19 "Reporting currency: measurement and presentation of financial statements under IAS-21 and IAS-29". This interpretation determines that measurement currency should provide information about the entity that is useful and reflects the economic substance of the underlying events and circumstances relevant to the entity. When certain currency is used to a significant extent in, or has a significant impact on, the entity, it is appropriate to use it as the measurement currency.

During its operating activities the Organization uses Georgian lary as a functional currency that has a significant impact on the Organization's transactions. As such, the Organization uses Georgian lary as the measurement currency for these financial statements.

Transactions in currencies different from the measurement currency are considered as foreign currency transactions and should be accounted in accordance with the requirement of IAS-21 "Effects of changes in foreign exchange rates".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

Effect of hyperinflation

IAS-29 “Financial reporting in hyperinflation economies” does not establish the absolute criteria for definition of hyperinflation economy. One of such criteria is when the cumulative inflation index achieves the level of 100% for last three years. Georgian inflation indexes for the last years are presented in the table below:

Period	Inflation index, %
2005	6,20
2006	9,18
2007	9,25
2008	10,00
2009	9,00

The decision as to recalculation of the financial statements under IAS-29 is taken by the Organization’s management. The Organization does not consider Georgian economy to be of hyperinflation nature and does not adjust its financial statements to the degree of change in consumer prices as at the date of its preparation.

Foreign Currencies Conversion

Assets and liabilities denominated in foreign currencies are subject to recalculation under the official exchange rates established by the National Bank of Georgia at the year-end. Exchange rate adjustments originating due to the converting are reported in the Income statement. Results denominated in foreign currencies are recalculated under the exchange rates at the date of transaction.

	Official rate of the National Bank of Georgia		
	USD	EUR	GBP
Exchange rate as at 31.12.08	1,6670	2,3640	2,4240
Exchange rate as at 31.12.09	1,6858	2,4195	2,6735
Average exchange rate for 2008	1,4902	2,1886	2,7566
Average exchange rate for 2009	1,6705	2,3305	2,6143

Financial Instruments

Financial instruments recognized in the Organization’s balance sheet include loans and receivables, cash and cash equivalents, borrowings, and other payables. Financial instruments are initially measured at fair value plus transaction costs, in the case of a financial asset or financial liability being not measured at fair value through profit and loss. Financial instruments are recognized in the balance sheet, when the Organization has become a party to the contractual arrangement of the instrument.

A financial instrument or a portion of a financial instrument is derecognized, when the Organization loses its contractual rights or extinguishes the obligation associated with such an instrument. On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in the income statement. On derecognition of a financial liability the difference between the carrying amount of the liability and the amount paid or payable is included in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- (a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- (b) Those that the entity upon initial recognition designates as available for sale; or
- (c) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

The Organization recognizes a financial asset in its statement of financial position when, and only when, the it becomes a party to the contractual provisions of the instrument; and derecognizes a financial asset when and only when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition.

After initial recognition, loans and receivables originated by the Organization are measured at amortized cost using the effective interest method less any provision for impairment or non-collectability.

For loans and receivables carried at amortized cost, a gain or loss is recognized in profit or loss when the loans and receivables are derecognized or impaired, and through the amortization process.

Provision for loan losses

The Organization assesses at the end of each reporting period whether there is any objective evidence that a loans and receivables are impaired. If any such evidence exists, the Organization determines the amount of any impairment loss. If there is objective evidence that an impairment loss 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 impairment loss 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 losses in the balance sheet represents an estimate of possible loan losses based on the CGAP (Consultative Group to Assist the Poor) standards, which is one of the best in micro finance industry worldwide, as well as the historic analysis of loan losses conducted by the Organization's management.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

Management provisions for loan losses based on annual information about loans. 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

Organization 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 loan portfolio and deducted from the provisions for loan loss.

Interest accrual on overdue loans

Interest income on loans is collected with monthly loan repayments. Due but unpaid interest is accrued on late loans for up to 180 days. After 180 days, late loans are classified as nonperforming and further accrual of unpaid interest income ceases. Accrued interest on nonperforming loans, including written-off loans, is reversed out of income on an ongoing basis.

Loan portfolio quality

The MFO's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending on the number of days they are overdue. For each class of loans, the outstanding principal balance of such loans is divided by the outstanding principal balance of the gross loan portfolio (that is, before deducting the provision for loan loss).

Loans are considered overdue if any payment has fallen due and remained unpaid. Loan payments are applied first to any interest due, than to any instalment of principal that is due but unpaid, beginning with the earliest such instalment. The number of days of lateness is based on the due date of the earliest loan instalment that has not been fully paid.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

	Outstanding principal balance - as at 31 December 2009		
	Outstanding loans	Portfolio at risk	Number of clients
Normal loans			
Current	-	1,048,027	300
31-45 days late	1,094	28,077	3
45-120 days late	1,184	3,123	2
45-180 days late	571	942	1
More than 180 days late	8,046	13,618	3
Total	10,895	1,093,787	309

	Outstanding principal balance - as at 31 December 2008		
	Outstanding loans	Portfolio at risk	Number of clients
Normal loans			
Current	-	1,088,095	397
31-45 days late	134	3,229	1
45-120 days late	3,325	31,512	3
45-180 days late	-	-	-
More than 180 days late	12,401	12,401	2
Total	15,860	1,135,237	403

	Outstanding principal balance - as at 31 December 2009		
	Outstanding loans (%)	Portfolio at risk (%)	Number of clients (%)
Normal loans			
Current	0.00%	95.82%	97.09%
31-45 days late	0.10%	2.57%	0.97%
45-120 days late	0.11%	0.29%	0.65%
45-180 days late	0.05%	0.09%	0.32%
More than 180 days late	0.74%	1.25%	0.97%
Total	1.00%	100.00%	100.00%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

Outstanding principal balance - as at 31 December 2008

	Outstanding loans (%)	Portfolio at risk (%)	Number of clients (%)
Normal loans			
Current	0.00%	95.85%	98.51%
31-45 days late	0.01%	0.28%	0.25%
45-120 days late	0.27%	2.78%	0.74%
45-180 days late	0.00%	0.00%	0.00%
More than 180 days late	1.01%	1.09%	0.50%
Total	1.29%	100.00%	100.00%

Cash and cash equivalents

Cash and cash equivalents include cash with bank accounts and demand deposits with banks.

Borrowings and bonds

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Organization has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognized as an expense in the period in which they are incurred.

Capital

Capital includes equity capital and retained earnings.

Accounts payable

Accounts payable are given in cost value representing the amounts to be reimbursed for received goods and services.

Payables with maturity date longer than a year are shown as long term payables.

Income recognition

Revenues are recognized in the income statement if the gross inflow of economic benefits during the period arises in the course of the ordinary activities of the Organization and when those inflows result in increases in equity, other than increases relating to contributions from equity participants and can be measured reliably.

Revenue consists of loan interest, fees for loan services (revenue from financial service), penalties and other revenue.

Depending on the type and the amount of loan the Interest rates can be fixed (flat) or declining from 30% to 60% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

Interest of loan accrued daily by the loan accounting software and automatically transacted to accounting software.

The interest is calculated according to the loan repayment schedule, which is individually agreed for each loan.

Interest income, penalties, fees on loan disbursement, exchange rate gains and other income are accounted on the accrual basis.

Recognition of expenses

The Organization incurs business expenses in the course of its normal operations, as well as other expenses not related to the main activity of the Organization.

Expenses are recognized in the income statement if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed.

Expenses are recognized in the income statement on the basis of direct comparison of expenses incurred and income on certain items.

If economic profit is expected to arise during several reporting periods and association with income can be traced only as a whole or indirectly, expenses in the income statement are recognized based on the method of rational distribution.

Expenses are recognized in the income statement immediately, if the expenses do not result in future economic profit any more, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

Interest expenses

Interest expenses for borrowings are recognized in the income statement using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability 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 throughout the expected life of the financial instrument, or a shorter period where appropriate to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Organization estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Property plant and equipment

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

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
Computers and other technical equipment	4
Building and construction	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:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

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

Deferred taxation

Current costs related to the payment of the Organization's operating activity tax are calculated in accordance with the Georgian tax legislation.

For financial reporting purposes current income tax expenses are adjusted for deferred taxes amounts originating due to temporary differences between the carrying amounts of assets and liabilities and their value accounted for taxation purposes. These adjustments result in reflection of the deferred tax assets or deferred tax liabilities.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/ (assets) are settled/ (recovered).

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 Organization's financial statements are reported in the financial statements. Post-balance sheet events that do not affect the financial position of the Organization at the balance sheet date are disclosed in the notes to the financial statements when material.

5. Financial instruments - risk management

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

- Credit risk
- Liquidity risk
- Interest rate risk
- Foreign exchange risk
- Other market price risk

In common with all other businesses, the Organization is exposed to risks that arise from its use of financial instruments. This note describes the Organization'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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

Principal financial instruments

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

- Cash at bank
- Issued loans portfolio (with fixed-rate)
- Interest receivable
- Other receivables
- Received loans (with fixed-rate)
- Trade and other payables

General objectives, policies and processes

The Management has overall responsibility for the determination of the Organisation's risk management objectives and policies.

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

Credit Risk

Credit risk is the risk of financial loss if a borrower or counterparty fails to repay the loan.

The main business of the Organization is to provide micro-loans. Respectively credit risk is of crucial importance in the Micro Financing Organisations (MFO) risk management. The Organization is exposed to the credit risk when the borrower of a financial instrument fails to meet its contractual obligations. To avoid significant financial damage caused by this the Organization uses various methods to identify and manage effectively the credit risks.

Basing on the experience the Organisation uses the established credit policy which gives the following basic stages of credit risk management:

- Tasks of the Credit committee
- Monitoring of the issued loans
- Ways of working on the delinquent loans.

Credit Committee is the analytical body responsible for analyzing the information in the loan applications, assessing and reducing the credit risks as far as possible. The Committee is the only independent body with MFO authorized to make the final decision about financing or rejecting the loan application.

Credit Committee members are basically from the Credit Departments and Director. The Committee is headed by the Director. According to the policy, number of members on the committee does not depend on the type and size of the loan.

Before presenting to the credit committee, the risk analyser subjects the project to the credit risk analysis through evaluating the project and quality of accomplishment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

Accuracy and correctness of information presented to the Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks. As a result, the committee members measure the client condition against the criteria such as: credit history, financial condition, competitive ability, etc and make decision on issuing credit.

Reduction of the credit risk is also possible through securing the loan with real estate or other material values.

Assessment of the applicant's creditworthiness through complete monitoring of its business allows timely avoiding the risk of financial loss. Monitoring is performed by credit officers who report the results to the management. The organisation does not maintain the strictly determined time-schedule for monitoring.

All amounts of the principal not repaid within the predetermined schedule or paid incompletely are qualified by the organisation as delayed loans.

First of all the credit officer should at the end of each day check the deadlines for covering principle or interest for each due client and control the payments.

Delayed loans are classified according to the overdue days and they are reserved as per the reserve policy to allow the organisation distributing the credit risk effect onto the various periods.

The Organization aims to help reduction of poverty through supporting the micro, small and medium businesses in Georgia. The target market segment for the Organisation owns the relatively low ration of creditworthiness. To neutralise the general credit risk, the Organisation has established higher interest rates than those of bank products.

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 Organization's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of financial instruments 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. Organization 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. The Organisation takes and gives loans both in operating currency and US dollars and from 2009 in EUR. So the exchange rate risk plays vital role in determining the financial risks of the Organization. However, the fact that the Organisation receives and gives loans are mostly in the same currency helps to reduce the exchange rate risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

Management meetings are a monthly event where the exchange rate misbalance elimination tools and options are discussed, also the preferred currency for current period loans are determined. The Organisation has established the policy which specifies reserving the existing cash funds in US dollars.

Liquidity Risk

Liquidity risk is the risk that the Organization will encounter difficulties in meeting its financial obligations as they fall due. The providence tool of liquidity risk is to ensure that Organization will always have sufficient cash and credit recourses to allow it to meet the market demand.

The liquidity risk is low because basing on the past years statistics the issued loans are almost fully collected, hence the significantly decreasing doubtful debts percentage in the organisation's loan portfolio over the years, specifically: 5.51% in 2007, 1.08% in 2008 and 1.22% in 2009

Capital disclosures

The Organization's objectives when maintaining capital are:

- To safeguard the Organization'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 Organization sets the amount of capital it requires in proportion to risk. The Organization 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 Organization may adjust the amount of dividends paid to shareholders, return capital to shareholders.

6. Cash and cash equivalents

Cash and cash equivalents as at 31 December can be presented as follows:

	2009	2008
Cash on hand GEL	885	31,683
Cash on hand USD	3,419	2,659
Cash on hand EURO	436	674
BazisBank GEL	20,330	9,717
Liberty Bank GEL	514	6,743
VTB Bank GEL	2	-
Kor Standard Bank GEL	242	-
TBC Bank GEL	7,033	-
Bazisbank USD	2,708	4,380
Liberty Bank USD	5,462	939
HSBC Bank of Georgia USD	643	594
Kor Standard Bank USD	3,907	-
TBC Bank EURO	277,997	-
Liberty Bank EURO	1,552	477
	325,130	57,866

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

7. Loan portfolio

Loan portfolio as at December 31 can be presented as follows:

	2009		2008	
	Amount	Share of Total	Amount	Share of Total
Short-term loans				
loans in GEL	105,815	10%	564,341	50%
loans in USD	465,770	43%	93,922	8%
loans in EURO	-	0%	-	0%
	571,585	52%	658,263	58%
Long-term loans				
loans in GEL	78,150	7%	469,964	41%
loans in USD	393,242	36%	7,010	1%
loans in EURO	50,810	5%	-	
	522,202	48%	476,974	42%
Gross loan portfolio	1,093,787	100%	1,135,237	100%
Provision for loan losses	(16,274)	1%	(20,441)	2%
Net loan portfolio	1,077,513	99%	1,114,796	98%

Calculation of provision for loan losses in 2009 is as follows:

	Outstanding loan portfolio (principal)		Provision for loan loss	
	Amount	Share of Total	Percent	Amount
Normal Loans				
Current	1,048,026	95.82%	-	-
31-45 days late	28,077	2.57%	9%	1,404
46-120 days late	3,123	0.29%	5%	781
121-180 days late	943	0.09%	3%	471
More than 180 days	13,618	1.26%	84%	13,618
Total	1,093,787	100%	100%	16,274

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

Calculation of Provision for loan losses in 2008 is as follows:

	Outstanding loan portfolio (principal)		Provision for loan losses	
	Amount	Share of Total	Percent	Amount
Normal Loans				
Current	1,088,095	95.85%		-
31-45 days late	3,229	0.28%	0.79%	161
46-120 days late	31,512	2.78%	38.54%	7,878
121-180 days late	0	0.00%	0.00%	0
More than 180 days	12,401	1.09%	60.67%	12,401
Total	1,135,237	100%	100%	20,441

Movements in loan loss provision

	2009	2008
Provision for loan losses, 1 January	20,441	57,472
Changes in loan loss Provision	(4,167)	(37,031)
Provision for loan losses, 31 December	16,274	20,441

*Information about collateral of loans granted at
31 December 2009 is as follows:*

	2009	2008
Loans collateralized by:		
Real estate (fair value)	4,058,789	3,995,779
Gold (fair value)	321,043	430,201
Suretyship	381,824	266,198
Total	4,761,656	4,692,178

8. Prepaid taxes

Tax assets as at December 31 can be presented as follows:

	2009	2008
Income tax	544	3,380
Social tax	182	182
Profit Tax	15,622	14,017
	16,348	17,579

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

9. Other current assets

Other current assets as at December 31 can be presented as follows:

	2009	2008
Trade receivable	-	1,154
Paid advances	6,302	10,411
	6,302	11,565

10. Intangible assets

Intangible assets as at December 31 can be presented as follows:

Historical cost	Computer programmes	Other intangible assets	Total
Historical cost 31.12.2007	11,846	1,805	13,651
Additions	6,589	15	6,604
Disposals	-	-	-
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
Accumulated depreciation			
Accumulated depreciation 31.12.2007	(1,163)	(122)	(1,285)
Depreciation 2008	(2,344)	(259)	(2,603)
Accumulated depreciation of disposal 2008	-	-	-
Accumulated depreciation 31.12.2008	(3,507)	(381)	(3,888)
Depreciation 2009	(2,634)	(280)	(2,914)
Accumulated depreciation of disposal 2009	-	51	51
Accumulated depreciation 31.12.2009	(6,141)	(610)	(6,751)
Net book value			
Net book value 31.12. 2008	14,928	1,439	16,367
Net book value 31.12. 2009	13,474	2,320	15,794

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

11. Property, plant, equipment

Property, plant, equipment as at December 31 can be presented as follows:

Historical cost	Building and construction	Furnishing the leased property	Computers and other technical equipment	Furniture and office equipment	Total
Historical cost 31.12.2007	-	-	13,778	19,024	32,802
Additions	-	4,658	4,955	12,942	22,555
Disposals	-	-	-	-	-
Historical cost 31.12.2008	-	4,658	18,733	31,966	55,357
Additions	403,067	-	3,440	3,356	409,863
Disposals	-	-	-	-	-
Historical cost 31.12.2009	403,067	4,658	22,173	35,322	465,220
Accumulated depreciation					
Accumulated depreciation 31.12.2007	-	-	(3,811)	(3,522)	(7,333)
Depreciation 2008	-	(1,042)	(4,353)	(3,868)	(9,263)
Accumulated depreciation of disposal 2008	-	-	-	-	-
Accumulated depreciation 31.12.2008	-	(1,042)	(8,164)	(7,390)	(16,596)
Depreciation 2009	(651)	(1,553)	(5,201)	(4,871)	(12,276)
Accumulated depreciation of disposal 2008	-	-	-	-	-
Accumulated depreciation 31.12.2009	(651)	(2,595)	(13,365)	(12,261)	(28,872)
Net book value					
Net book value 31.12. 2008	-	3,616	10,569	24,576	38,761
Net book value 31.12. 2009	402,416	2,063	8,808	23,061	436,348

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

12. Investment property

In 2008 MFO "Georgian Credit" LLC received a flat and land worth 46,000GEL and 34,062GEL respectively instead of the unpaid loan. In 2009 additional land of 16,821GEL was received by the organization. This property is used for securing the loans and attracting the cash funds by the organisation and is qualified as the investment property of the organization.

13. Account payables

Account payables as at December 31 can be presented as follows:

	2009	2008
Trade payables	4,110	3,733
Other payables	2,824	83
	6,934	3,816

14. Bonds

In May 2008 the organisation issued securities (bonds) worth 400,000GEL. Owners of these bonds were various legal entities and individuals. Out of this 45,000GEL liability was covered the same year 2008. The rest - 355,000GEL bonds were covered next year, in 2009.

15. Borrowings

	2009	2008
Short-term borrowings		
Borrowings from physical persons	384,209	342,586
Bazisbank	-	-
Kor Standard Bank	55,677	-
	439,886	342,586
Current portion of long-term loan		
Bazisbank	21,397	195,398
HSBC	54,086	63,207
Kor Standard Bank	88,244	-
	163,727	258,605
Long-term Borrowings		
Bazisbank	-	21,397
HSBC	-	48,620
Kor Standard Bank	114,052	-
IMOGRUND	362,925	-
	476,977	70,017
	1,080,590	671,208

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

16. Deferred tax liability

Recognized liabilities subject to deferred taxation as at December 31 can be presented as follows:

	2009	2008
At 1 January	5,814	3,820
Recognised in profit and loss		
Tax income (expense)	11,229	1,994
Recognised in other comprehensive income	-	-
At 31 December	17,043	5,814

	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	-
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	-

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to equity
	2008	2008	2008	2008	2008
Property plant and equipment	-	5,814	5,814	1,994	-
Tax asset/(liabilities)	-	5,814	5,814	1,994	-
Set off of tax	5,814	(5,814)		-	-
Net tax assets/(liabilities)	5,814	-	5,814	1,994	-

17. Statutory capital

The organisation 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 organization underwent reorganisation and instead of “Business Management Bureau” Ltd the founders of the organisation were determined: “Consulting Group GT” Ltd and “Baad

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

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 organization became EMIC Invest GbR - organization acting under German law incorporated in Germany. Charter capital was defined in 749,273GEL 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%.

18. Financial revenue

Financial revenue for the year ended December 31, 2009 can be presented as follows:

	2009	2008
Operational Revenue	7	21
Revenue from loans	461,549	465,211
Income from penalties	11,540	7,247
Income from commission	8,851	22
Income from exchange rate difference	1,193	2,266
Income from the fee	170	70
	483,310	474,837

19. Loans written off/recovered

	2009	2008
Loans written off	(16,506)	(23,706)
Loans recovered	21,490	59,368
	4,984	35,662

20. Administrative expenses

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

	2009	2008
Communal expenses	(3,764)	(4,316)
Communicative expenses	(4,140)	(3,969)
Salaries and bonuses	(123,952)	(105,765)
Advertisement expenses	(2,631)	(6,115)
Lease expenses	(37,462)	(51,912)
Stationery	(1,060)	(2,513)
Other general expenses	(7,452)	(4,157)
Security expenses	(2,983)	(4,416)
belongings expenses	(2,709)	(957)
Audit and consulting services fees	(20,964)	(2,000)
depreciation expenses	(16,112)	(12,127)
Expenses for credit-info's service	(7,107)	(5,791)
Computer expenses	(2,489)	(2,266)
	(232,825)	(206,304)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

21. Other expenses

	2009	2008
Representative expenses	(1,299)	(1,818)
Other expenses	(14,212)	(4,318)
Charity expenses	-	(5,000)
Bank fee	(3,609)	(3,454)
Cash loss from robbery	-	(41,000)
	(19,120)	(55,590)

22. Income tax expenses

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

Profit tax expense	2009	2008
Current tax	-	(6,896)
Effect of temporary differences	(11,229)	(1,994)
Effect of changes in tax rate	-	-
Profit tax expense	(11,229)	(8,890)
Profit tax expense	2009	2008
Profit before profit tax	83,440	152,478
Applicable tax rate	15%	15%
Theoretical income tax	(12,516)	(22,872)
Effect of changes in not recognized deferred tax and tax effect of expenses that are not include for tax purposes	1,287	13,982
Profit tax expense	(11,229)	(8,890)

23. Contingencies**Georgian economic trends**

Georgian economy is still inherent in features and risks of developing market. These features include inadequately developed business infrastructure and normative base regulating activities of entities, limited convertibility of the national currency and limitations of performance of foreign currency transactions as well as the low level of liquidity on the capital market. The Government has undertaken certain measures targeted at such issues, however up to this moment the reforms necessary to establish financial, legal and regulatory systems are not completed yet.

Tax System

Among the recent reforms performed after the "Rose Revolution" the most significant were: reduction of administrative corruption, new wave of privatization, approval of the new Tax Code, which experts believe to be more liberal. Transparency of the modern political process, participation of the shareholders in establishment of new liberal business-environment (for instance, consulting between the government and industrialists in development of the new tax code), provisioning new regulations that bring lobbying of interests of groups within the framework of legislation - all of that created the

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

(In GEL)

necessary prerequisites for fair competition and minimized non-economical factors of risk and unpredictability.

The new Tax Code cancelled certain generating taxes on low income by reducing the number of taxes from 21 to 8. VAT rate was reduced from 20% to 18% and tax for payroll fund - from 33% to 20%. Income tax rate for individuals was fixed as 12% instead of marginal rates within 12-20%. Losses caused by reduction of taxes are planned to be compensated against excise duties, extension of tax base (reducing the number of tax exempts) and also by improvement of administration in area of more strict execution of tax requirements.

Though it must be mentioned that the significant changes were made in Tax Legislation at the end of 2007, according to which from 2008 the profit tax was reduced from 20% to 15 %, the social tax was abolished and the income tax was increased from 12% to 25 %. From 2008 the personal income tax changed again and reduced from 25% to 20 %. Non-resident income tax is abolished on the payments to reinsurers. Income tax on paid dividends and interests is reduced from 10% to 5% from 2009. Also non-resident income tax rate is reduced from 10% to 7, 5% from 2009.

One more principal distinction of the new Tax Code is its administrative part, which more precisely determines possible tax violations and penalties and also provides flexible scheme for issue settlement. Administration of tax collection was significantly improved even in the old Tax Code. This is the result of reforms in tax and custom departments. Improved institutional possibilities will assist the government to properly apply the new Tax Code.

Legal Liabilities

In the course of its business activity the Organization deals with court suits and claims. The management of the Organization is convinced that the ultimate responsibility for the commitments, which might result from suits and claims, should they arise, will not have any significant effect to the financial position or future business transactions of the Organization.

24. Going Concern Assumption

The Organization's financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Respective, the financial statements do not include any adjustments related to the recorded asset amounts that would have been necessary should the Organization either had been unable to continue as a going concern or if the Organization had disposed the assets outside the normal course of its operating plan.