TBC BANK GROUP

International Financial Reporting Standards Consolidated Financial Statements and Auditors' Report

31 December 2010

CONTENTS

Independent Auditor's Report

To the Shareholders and Management of TBC Bank Group:

1 We have audited the accompanying consolidated financial statements of TBC Bank Group and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated 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

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

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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.

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

21 April 2011
Tbilisi, Georgia

PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch; Address: #7 Bambis Rigi Street, Business Center Mantashevi, Tbilisi 0105, Georgia, T: +995 (32) 50 80 50, F:+995 (32) 50 80 60, www.pwc.com/ge

In thousands of GEL	Notes	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	6	275,425	332,848
Due from other banks	7	74,736	37,249
Loans and advances to customers	8	1,380,955	988,428
Investment securities available for sale	9	216,323	3,619
Current income tax prepayment		2,500	2,193
Investment securities held to maturity	10	28,986	115,496
Other financial assets	11	4,239	7,009
Investments in finance leases	12	9,681	14,090
Other assets	13	94,828	71,876
Premises and equipment	14	144,429	148,291
Intangible assets	14	3,560	5,178
Investment properties	15	27,742	9,785
Goodwill	16	1,262	1,958
Assets of disposal group classified as held for sale	17	3,115	-
TOTAL ASSETS		**2,267,781**	**1,738,020**
LIABILITIES			
Due to other banks	18	47,762	27,366
Customer accounts	19	1,365,352	991,172
Deferred income tax liability	32	7,294	1,369
Provisions for liabilities and charges	20	6,881	5,289
Other financial liabilities	21	3,932	5,725
Other liabilities	22	19,681	6,602
Other borrowed funds	23	280,906	223,401
Subordinated debt	24	158,401	150,353
Liabilities of disposal group classified as held for sale	17	300	-
TOTAL LIABILITIES		**1,890,509**	**1,411,277**
EQUITY			
Share capital	25	15,113	15,000
Share premium	25	201,723	201,723
Retained earnings		123,423	71,920
Other reserves	27	31,813	32,806
Net assets attributable to the Bank's equity holders		**372,072**	**321,449**
Non-controlling interest		**5,200**	**5,294**
TOTAL EQUITY		**377,272**	**326,743**
TOTAL LIABILITIES AND EQUITY		**2,267,781**	**1,738,020**

Approved for issue and signed on behalf of the Board of Directors on 21 April 2011

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 5 to 61 form an integral part of these consolidated financial statements.

In thousands of GEL	Notes	2010	2009
Interest income	28	271,805	264,934
Interest expense	28	(108,991)	(102,692)
Net interest income		**162,814**	**162,242**
Provision for loan impairment	8	(31,320)	(94,055)
Net interest income after provision for loan impairment		**131,494**	**68,187**
Fee and commission income	29	29,832	25,979
Fee and commission expense	29	(11,060)	(9,027)
Gains less losses from trading in foreign currencies		22,842	17,733
Foreign exchange translation (losses less gains)/gains less losses		(964)	334
Losses on initial recognition of assets at rates below market		-	(3,365)
Impairment of investment securities available for sale	9	-	(257)
Gains from disposal of investment securities available for sale	9	-	7,920
(Provision for) / recovery of liabilities, charges and credit related commitments	20	(3,092)	35
(Provision for) / recovery of impairment of investments in finance lease	12	(900)	445
Provision for impairment of other financial assets	11	(713)	(179)
Other operating income	30	8,595	9,472
Administrative and other operating expenses	31	(116,396)	(111,569)
Profit before tax from continuing operations		**59,638**	**5,708**
Income tax expense	32	(6,922)	(981)
Profit for the year from continuing operations		**52,716**	**4,727**
Discontinued operations			
Loss for the year from discontinued operations	17	(3,281)	(1,767)
Profit for the year		**49,435**	**2,960**
Other comprehensive income:			
Available-for-sale investments:			
- Revaluation	9	(286)	1,072
- Reclassification adjustments for gains less losses included in profit or loss	9	-	(788)
Exchange differences on translation to presentation currency		1,062	(224)
Income tax recorded directly in other comprehensive income		41	(41)
Other comprehensive income for the year		**817**	**19**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**50,252**	**2,979**
Profit is attributable to:			
- Owners of the Bank		49,374	2,831
- Non-controlling interest		61	129
Profit for the year		**49,435**	**2,960**
Total comprehensive income is attributable to:			
- Owners of the Bank		50,191	2,850
- Non-controlling interest		61	129
Total comprehensive income for the year		**50,252**	**2,979**

In thousands of GEL	**Note**	**Attributable to equity holders of the Bank** Share capital	Share premium	Other reserves (note 27)	Retained earnings	Total	**Non-controlling interest**	**Total equity**
Balance at 1 January 2009		**11,700**	**138,748**	**32,787**	**69,089**	**252,324**	**5,165**	**257,489**
Total comprehensive income for 2009		-	-	19	2,831	**2,850**	129	**2,979**
Share issue	26	3,300	62,700	-	-	**66,000**	-	**66,000**
Share based payment	27	-	275	-	-	**275**	-	**275**
Balance at 31 December 2009		**15,000**	**201,723**	**32,806**	**71,920**	**321,449**	**5,294**	**326,743**
Total comprehensive income for 2010		-	-	817	49,374	**50,191**	61	**50,252**
Share issue	26	113	-	-	-	**113**	-	**113**
Transfer of revaluation surplus on premises to retained earnings		-	-	(1,810)	2,129	**319**	-	**319**
Disposal of non-controlling interest in subsidiaries		-	-	-	-	**-**	(155)	**(155)**
Balance at 31 December 2010		**15,113**	**201,723**	**31,813**	**123,423**	**372,072**	**5,200**	**377,272**

In thousands of GEL	Note	2010	2009
Cash flows from operating activities			
Interest received	28	243,707	280,588
Interest paid	28	(108,275)	(98,761)
Fees and commissions received	29	30,377	26,211
Fees and commissions paid	29	(11,605)	(9,027)
Income received from trading in foreign currencies		21,839	17,735
Other operating income received	30	7,745	5,724
Staff costs paid	31	(48,768)	(48,870)
Administrative and other operating expenses paid	31	(36,405)	(46,365)
Income tax (paid) / refunded		(1,348)	462
Cash flows from operating activities before changes in operating assets and liabilities		**97,267**	**127,697**
Changes in operating assets and liabilities			
Net decrease / (increase) in due from other banks	7	(36,752)	10,597
Net decrease / (increase) in loans and advances to customers	8	(443,889)	195,631
Net decrease / (increase) in investment in finance lease	12	4,409	9,676
Net decrease / (increase) in other financial assets	11	2,770	(5,354)
Net decrease / (increase) in other assets	13	(6,205)	(66,077)
Net decrease / (increase) in due to other banks	18	20,304	3,418
Net increase in customer accounts	19	373,562	140,616
Net decrease / (increase) in other liabilities	22	653	3,021
Net cash from / (used in) operating activities		**12,119**	**419,225**
Cash flows from investing activities			
Acquisition of investment securities available for sale	9	(483,844)	(198)
Proceeds from disposal of investment securities available for sale	9	-	8,672
Proceeds from redemption at maturity of investment securities available for sale	9	390,368	-
Proceeds from disposal of associate		-	1,773
Acquisition of investment securities held to maturity	10	(27,921)	(215,196)
Proceeds from redemption of investment securities held to maturity	10	-	120,906
Acquisition of premises, equipment and intangible assets	14	(13,931)	(10,419)
Net cash (used in) / from investing activities		**(135,328)**	**(94,462)**
Cash flows from financing activities			
Proceeds from other borrowed funds	23	57,505	12,671
Redemption of other borrowed funds	23	-	(497,713)
Proceeds from subordinated debt	24	8,048	70,774
Issue of ordinary shares	25	113	66,275
Net cash (used in) / from financing activities		**65,666**	**(347,993)**
Effect of exchange rate changes on cash and cash equivalents		**120**	**332**
Net (decrease) / increase in cash and cash equivalents		**(57,423)**	**(22,898)**
Cash and cash equivalents at the beginning of the year		**332,848**	**355,746**
Cash and cash equivalents at the end of the year	6	**275,425**	**332,848**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 for TBC Bank (the "Bank") and its subsidiaries (together referred to as the "Group" or "TBC Bank Group").

The Bank was incorporated and is domiciled in Georgia on 17 December 1992. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations.

In 2009 the Group issued new shares and as a result as at 31 December 2009 and 31 December 2010 there is no ultimate controlling party. At 31 December 2010, shareholders structure by ownership interest is as following:

Shareholders	**31 December 2010 Ownership interest,%**	**31 December 2009 Ownership interest,%**
International Finance Corporation	20%	20%
European Bank for Reconstruction and Development	20%	20%
TBC Holdings LTD	21%	-
Deutsche Investitions und Entwicklungsgesellschaft MBH	11%	12%
Liquid Crystal International N.V. LLC	7%	-
Individuals	8%	35%
JPMorgan Chase Bank	5%	5%
Ashmore Cayman SPC	5%	5%
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	3%	3%
Total	**100%**	**100%**

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Georgia. The Bank has operated under a general banking license issued by the National Bank of the Georgia ("NBG") since 20 January 1993.

The Bank has 13 (2009: 13) branches and 32 (2009: 30) service centres within Georgia. As at 31 December 2010, the Group had 2,291 employees (2009: 2,293 employees).

The Bank is a parent of a group of companies (the "Group") incorporated in Georgia and Azerbaijan, primary business activities include providing banking, leasing, brokerage, card processing services, to corporate and individual customers. The list of companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

Registered address and place of business. The Bank's registered address is: 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

Presentation currency. These consolidated financial statements are presented in thousands of Georgian Lari ("GEL thousands"), unless otherwise indicated.

2 Summary Significant Accounting Policies

Basis for preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises, available-for-sale financial assets, the initial recognition of financial instruments based on fair value and identifiable assets acquired and liabilities assumed in a business combination measured at their fair values at the acquisition date and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4).

Consolidated financial statements. Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The consolidated financial statements include the following principal subsidiaries:

Subsidiary	31 December 2010 Ownership / voting,%	31 December 2009 Ownership / voting,%	Country	Date of incorporation or acquisition	Industry
JSC TBC Leasing	89.53%	89.53%	Georgia	2003	Leasing
TBC Kredit LLC	75.00%	75.00%	Azerbaijan	2008	Non-banking credit institution
TBC Broker LLC	100.00%	100.00%	Georgia	1999	Brokerage
JSC United Financial Corporation	93.32%	93.32%	Georgia	1997	Card processing
JSC Real Estate Management Fund	100%	-	Georgia	2010	Real Estate Management
Banking System Service Company LLC	100.00%	100.00%	Georgia	2009	Service

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

The Group holds more than 50% of voting rights in UFC International Limited but investment in and operations of the aforementioned entity are immaterial to the Group financial statements as a whole, and therefore this subsidiary is not consolidated.

2 Summary of Significant Accounting Policies (Continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

Associates. Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. Refer to Note 9.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group 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.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia ("NBG"), excluding mandatory reserves, and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

2 Summary of Significant Accounting Policies (Continued)

Mandatory cash balances with the National Bank of Georgia. Mandatory cash balances with the National Bank of Georgia are carried at amortised cost and represent mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within three to six months. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

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

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

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

2 Summary of Significant Accounting Policies (Continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

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

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed assets are recorded at the lower of cost or net realisable value.

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

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss. 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 investment securities available for sale.

2 Summary of Significant Accounting Policies (Continued)

A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment, except for buildings and construction in progress, are carried at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Following initial recognition, buildings and construction in progress are carried at revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed frequently enough to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in the consolidated income statement to the extent of the decrease previously charged. A revaluation deficit is recognized in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Depreciation on revalued buildings is charged to consolidated income statement. Upon disposal of revalued property, any revaluation reserve relating to the particular asset being sold or retired is transferred to retained earnings.

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

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

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

2 Summary of Significant Accounting Policies (Continued)

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

Premises	30 - 50 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 5 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 8 years; and
Leasehold improvements	lesser of 7 years or the term of the underlying lease

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

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortised on a straight line basis over expected useful lives of two to eight years.

Investments in leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Investments in leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

2 Summary of Significant Accounting Policies (Continued)

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 Investments in leases. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment, investment properties and intangible assets are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the statement of financial position.

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

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

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

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value.

2 Summary of Significant Accounting Policies (Continued)

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

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

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

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

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

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

Share capital. Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Income and expense recognition. Interest income and expense are recorded in the consolidated 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.

2 Summary of Significant Accounting Policies (Continued)

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 Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

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

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

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of Georgia, Lari.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of respective territories that the Bank and its subsidiaries operate, at 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 into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

At 31 December 2010 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.7728 (2009: USD 1 = GEL 1.6858); EUR 1 = GEL 2.3500 (2009: EUR 1 = GEL 2.4195).

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

2 Summary of Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Share based payments. Under share-based compensation plan the Group receives services from top management as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the statement of operations, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment of available for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

Investments carried at cost. Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale (JSC GRDC and other investments). The investments are carried at cost of GEL 1,766 thousand (2009: GEL 1,766 thousand). The investee has not published financial information for the year ended 31 December 2010 about its operations, its shares are not quoted and recent trade prices are not publicly accessible.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 8,313 thousand (2009: GEL 8,946 thousand), respectively. Impairment provisions for individually significant loans are based on the estimate of discounted future cash flows of the individual loans taking into account repayments and realisation of any assets held as collateral against the loan.

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

A 5% increase or decrease in the actual future discounted cash flows from individually significant loans which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for loan loss provision of GEL 4,272 thousand (2009: GEL 5,460 thousand), respectively.

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

***Fair value disclosure of investment properties*.** Investment properties held by the Group are carried at cost. However, as per the requirements of IAS 40, the Group also discloses the fair value of investment properties as at the reporting dates. In determining the fair values of investment properties, the Group uses the available information on the real estate market in the media, reports of independent appraisers, who hold a recognised and relevant professional qualification, information available on the valuation of similar assets and the general knowledge of the internal appraisals that the Group have.

Assumptions to determine amount of provisions. The Group is subject to the possibility of various loss contingencies arsing in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required.

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 35.

Initial recognition of related party transactions. In the normal course of business the Group 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 31 December 2010 and 2009, there were no loans and advances at other than market conditions. Terms and conditions of related party balances are disclosed in Note 37.

Goodwill. Recoverable amount of goodwill was estimated based on value in use calculation. Refer to Note 16.

4 Adoption of New or Revised Standards and Interpretations

(a) Standards effective for annual periods beginning on or after 1 January 2010

The following new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these financial statements.

4 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases).

The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

The Group has changed its accounting policy for the accounting for loss of control or significant influence from 1 January 2010.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have a material impact on these financial statements.

4 Adoption of New or Revised Standards and Interpretations (Continued)

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have a material impact on these financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its financial statements.

5 New Accounting Pronouncements (Continued)

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have any material effect on its financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent only payments of principal and interest (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have any material impact on the Group's financial statements.

5 New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group does not expect the amendments to have any material effect on its financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

5 New Accounting Pronouncements (Continued)

The Group does not expect the amendments to have any effect on its financial statements.

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

6 Cash and Cash Equivalents

In thousands of GEL	2010	2009
Cash on hand	95,138	83,793
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	22,163	51,122
Correspondent accounts and overnight placements with other banks	123,516	122,587
Placements with other banks with original maturities of less than three months	34,608	75,346
Total cash and cash equivalents	**275,425**	**332,848**

Interest rate analysis of cash and cash equivalents is disclosed in Note 33. The information on related party balances is disclosed in Note 39.

Credit rating of correspondent accounts and overnight placements with other banks is as follows:

In thousands of GEL	2010	2009
AA	203	3,144
AA-	14,984	7,582
A+	101,778	96,163
A	10	14,325
A-	596	505
BBB+	130	-
BBB-	53	-
Not Rated	5,762	868
Total	**123,516**	**122,587**

Credit rating of placements with other banks with original maturities of less than three months is as follows:

In thousands of GEL	2009	2009
A+	-	24,195
A	-	24,195
BBB	-	5,057
B-	-	4,935
Not Rated	34,608	16,964
Total	**34,608**	**75,346**

Balances with other banks without rating represent placements with top 10 Georgian Banks.

7 Due from Other Banks

In thousands of GEL	2010	2009
Short-term placements with other banks with original maturities of more than three months	16,160	2,110
Mandatory cash balances with the National Bank of Georgia	58,576	35,139
Total due from other banks	**74,736**	**37,249**

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2010 is as follows:

In thousands of GEL	Short-term placements with other banks	Mandatory cash balances with the National Bank of Georgia	Total
Current and not impaired			
- National Bank of Georgia	-	58,576	58,576
- Large OECD Banks	16,160	-	16,160
Total current and not impaired	**16,160**	**58,576**	**74,736**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2009 is as follows:

In thousands of GEL	Short-term placements with other banks	Mandatory cash balances with the National Bank of Georgia	Total
Current and not impaired			
- National Bank of Georgia	-	35,139	35,139
- Large OECD Banks	2,110	-	2,110
Total current and not impaired	**2,110**	**35,139**	**37,249**

Credit rating of amounts due from large OECD Banks is as follows:

In thousands of GEL	2010	2009
A+	528	1,011
A	54	51
BBB+	-	543
BBB-	13,944	-
Not Rated	1,634	505
Total due from large OECD banks	**16,160**	**2,110**

At 31 December 2010 the Group had balances with three counterparty bank (2009: one bank) with aggregated amounts above GEL 1,000 thousand. The total aggregate amount of these deposits was GEL 72,506 thousand (2009: GEL 35,139 thousand) or 97% of the total amount due from other banks (2009: 94%). Refer to Note 37 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

8 Loans and Advances to Customers

In thousands of GEL	2010	2009
Corporate loans	748,925	603,680
Consumer loans	283,893	208,633
Mortgage loans	260,033	170,423
Small and micro loans	216,028	152,728
Others	39,530	33,913
Less: Provision for loan impairment	(167,454)	(180,949)
Total loans and advances to customers	**1,380,955**	**988,428**

Movements in the provision for loan impairment during 2010 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and Micro loans	Other	Total
Provision for loan impairment at 1 January 2010	**146,416**	**25,181**	**3,911**	**5,339**	**102**	**180,949**
Provision for impairment during the year	(5,995)	5,724	20,037	11,656	(102)	31,320
Amounts written off during the year as uncollectible	(38,621)	(20,728)	(8,635)	(3,601)	-	(71,585)
Recovery of amounts previously written off as uncollectible	12,213	8,640	3,040	2,877	-	26,770
Provision for loan impairment at 31 December 2010	**114,013**	**18,817**	**18,353**	**16,271**	**-**	**167,454**

Loans and advances to customers written off in 2010 included loans to customers in the gross amount of GEL 13,151 thousand issued during 2010 and GEL 58,433 thousand issued in prior years.

For terms of loans and advances to related parties, impairment provisions made against those loans and amounts written off during the year refer to Note 39.

Movements in the provision for loan impairment during 2009 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Other	Total
Provision for loan impairment at 1 January 2009	**142,267**	**21,995**	**2,303**	**909**	**-**	**167,474**
Provision for impairment during the year	54,876	27,103	4,039	7,935	102	94,055
Amounts written off during the year as uncollectible	(87,428)	(29,760)	(3,874)	(4,059)	-	(125,121)
Recovery of amounts previously written off as uncollectible	36,701	5,843	1,443	554	-	44,541
Provision for loan impairment at 31 December 2009	**146,416**	**25,181**	**3,911**	**5,339**	**102**	**180,949**

8 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

In thousands of GEL	2010 Amount	2010 %	2009 Amount	2009 %
Trade and service	461,833	30%	317,923	27%
Construction	399,900	26%	141,844	12%
Individuals	307,018	20%	432,311	37%
Manufacturing	147,387	9%	103,727	9%
Energy	106,484	7%	28,707	2%
Gold pawn loans	39,529	3%	33,913	3%
Transport and communication	46,094	3%	33,300	3%
Agricultural	20,523	1%	27,719	2%
Other	19,641	1%	49,933	4%
Total loans and advances to customers (before impairment)	**1,548,409**	**100%**	**1,169,377**	**100%**

At 31 December 2010 the Group had 43 borrowers (2009: 31 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 588,658 thousand (2009: GEL 317,876 thousand) or 38% of the gross loan portfolio (2009: 27%).

Information about collateral at 31 December 2010 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Others	Total
Unsecured loans	89,101	117,371	16,140	22,170	-	**244,782**
Loans collateralised by:						
- real estate	493,569	53,892	243,012	148,200	-	**938,673**
- inventory and equipment	92,865	87,967	802	40,925	-	**222,559**
- jewellery					39,530	**39,530**
- cash deposits	33,817	24,663	79	4,733	-	**63,292**
- other assets	39,573	-	-	-	-	**39,573**
Total loans and advances to customers	**748,925**	**283,893**	**260,033**	**216,028**	**39,530**	**1,548,409**

Information about collateral at 31 December 2009 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Others	Total
Unsecured loans	42,400	106,382	5,468	3,932	-	**158,182**
Loans collateralised by:						
- real estate	500,139	28,793	164,128	143,291	-	**836,351**
- inventory and equipment	22,676	51,029	741	1,793	-	**76,239**
- jewellery	-	-	-	-	33,913	**33,913**
- cash deposits	16,672	21,802	67	3,492	-	**42,033**
- other assets	21,793	627	19	220	-	**22,659**
Total loans and advances to customers	**603,680**	**208,633**	**170,423**	**152,728**	**33,913**	**1,169,377**

8 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

In thousands of GEL	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Small and micro loans**	**Others**	**Total**
Current and not impaired						
- Borrowers with credit history over two years – at original terms	35,283	11,121	49,044	16,155	-	111,603
- Borrowers with credit history over two years – renegotiated in 2010	11,097	281	13,083	6,169	-	30,630
- new borrowers – at original terms	204,531	106,070	114,453	89,216	39,530	553,800
- new borrowers – renegotiated in 2010	21,775	6,150	15,542	14,892	-	58,359
Total current and not impaired	**272,686**	**123,622**	**192,122**	**126,432**	**39,530**	**754,392**
Past due but not impaired						
- less than 30 days overdue	-	1,999	2,893	1,383	-	6,275
- 30 to 90 days overdue	-	1,126	1,032	1,796	-	3,954
- 90 to 180 days overdue	2,404	1,419	1,790	1,330	-	6,943
- 180 – 360 days overdue	189	656	1,130	41	-	2,016
Total past due but not impaired	**2,593**	**5,200**	**6,845**	**4,550**	**-**	**19,188**
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	180,840	-	-	12,860	-	193,700
- 30 to 90 days overdue	1,538	-	-	-	-	1,538
- 90 to 180 days overdue	2,776	-	-	-	-	2,776
- 180 – 360 days overdue	6,395	-	-	-	-	6,395
Total individually impaired loans (gross)	**191,549**	**-**	**-**	**12,860**	**-**	**204,409**
Gross carrying value of other loans	**282,097**	**155,071**	**61,066**	**72,186**	**-**	**570,420**
Less impairment provisions	**(114,013)**	**(18,817)**	**(18,354)**	**(16,270)**	**-**	**(167,454)**
Total loans and advances to customers	**634,912**	**265,076**	**241,679**	**199,758**	**39,530**	**1,380,955**

8 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2009 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Others	Total
Current and not impaired						
- Borrowers with credit history over two years – at original terms	48,282	11,043	51,426	32,118	-	142,869
- Borrowers with credit history over two years – renegotiated in 2009	11,467	230	2,688	1,900	-	16,285
- new borrowers – at original terms	234,185	52,655	73,925	93,800	33,913	488,478
- new borrowers – renegotiated in 2009	1,980	1,136	2,074	2,462	-	7,652
Total current and not impaired	**295,914**	**65,064**	**130,113**	**130,280**	**33,913**	**655,284**
Past due but not impaired						
- less than 30 days overdue	253	1,596	1,909	3,628	-	7,386
- 30 to 90 days overdue	1,949	1,745	2,352	2,392	-	8,438
- 90 to 180 days overdue	916	2,106	918	1,104	-	5,044
- 180 – 360 days overdue	1,751	1,178	393	984	-	4,306
Total past due but not impaired	**4,869**	**6,625**	**5,572**	**8,108**	**-**	**25,174**
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	227,734	-	-	2,261	-	229,995
- 30 to 90 days overdue	2,605	-	-	-	-	2,605
- 90 to 180 days overdue	449	-	-	-	-	449
- 180 – 360 days overdue	4,997	-	-	-	-	4,997
Total individually impaired loans (gross)	**235,785**	**-**	**-**	**2,261**	**-**	**238,046**
Gross carrying value of other loans	**67,112**	**136,944**	**34,738**	**12,079**	**-**	**250,873**
Less impairment provisions	**146,416**	**25,181**	**3,911**	**5,339**	**102**	**180,949**
Total loans and advances to customers	**457,264**	**183,452**	**166,512**	**147,389**	**33,811**	**988,428**

At 31 December 2010, interest accrual on individually impaired loans was GEL 15,865 thousand (2009: GEL 14,135 thousand).

The primary factors that the Group considers whether a loan is impaired are its overdue status, financial position of a borrower and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Current and not impaired, but renegotiated loans represent the carrying amount of loans that would be past due or impaired if the terms have not been renegotiated (refer to table above). Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

8 Loans and Advances to Customers (Continued)

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2010 was as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Total
Fair value of collateral - loan past due but not impaired					
- real estate	2,593	2,520	6,846	4,285	16,244
- inventory and equipment	-	2,680	-	-	2,680
- cash deposits	-	1	-	266	267
Fair value of collateral - individually impaired loans					
- real estate	135,746	-	-	-	135,746
- inventory and equipment	39,244	-	-	-	39,244
- other assets	8,235	-	-	-	8,235
Total	**185,818**	**5,201**	**6,846**	**4,551**	**202,416**

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2009 was as follows:

In thousands of GEL-	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Total
Fair value of collateral - loan past due but not impaired					
- real estate	4,593	2,175	5,572	7,900	20,240
- inventory and equipment	275	4,450	-	134	4,859
- cash deposits	-	-	-	75	75
Fair value of collateral - individually impaired loans					
- real estate	207,033	-	-	2,261	209,294
- inventory and equipment	7,732	-	-	-	7,732
- cash deposits	812	-	-	-	812
- other assets	8,376	-	-	-	8,376
Total	**228,821**	**6,625**	**5,572**	**10,370**	**251,388**

The Group’s internal appraiser performed physical inspection of pledged real estate and estimated the fair value of real estate at the balance sheet date using primarily market comparison method. Fair value of inventory, equipment and other assets was determined by the Group’s credit department using the Group’s internal guidelines. Amount of fair value of collateral is disclosed to the extent of credit exposure.

Refer to Note 37 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

9 Investment Securities Available for Sale

In thousands of GEL	2010	2009
Certificates of Deposit of National Bank of Georgia	126,148	-
Ministry of Finance Treasury Bills	86,841	-
Total debt securities	212,989	-
Corporate shares – unquoted	1,766	1,766
Corporate shares – quoted (VISA Inc)	1,568	1,853
Total investment securities available for sale	**216,323**	**3,619**

Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale. The investments are carried at cost of GEL 1,766 thousand (2009: GEL 1,766 thousand). The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

At 31 December 2010 investment securities available for sale carried at GEL 58,463 thousand (2009: nil) have been pledged to Local banks and financial institutions as collateral with respect to other borrowed funds. Refer to Note 23.

The movements in investment securities available for sale are as follows:

In thousands of GEL	2010	2009
Carrying amount at 1 January	**3,619**	**4,729**
Reclassification from investments held to maturity	115,496	-
Purchases	483,844	198
Disposals	-	(2,123)
Redemption at maturity	(390,368)	
Revaluation	(286)	1,072
Interest income accrued	10,317	
Interest income received	(6,299)	
Impairment	-	(257)
Carrying amount at 31 December	**216,323**	**3,619**

At 31 December 2010 the principal equity investment securities available for sale are:

Name	**Nature of business**	**Country of registration**	**Carrying value 2010**	**Carrying value 2009**
JSC GRDC	Property development	Netherlands Antilles	1,502	1,502
Visa Inc.	Card Processing	USA	1,568	1,853
Other			264	264
Total			**3,334**	**3,619**

10 Investment Securities Held to Maturity

In thousands of GEL	2010	2009
Government notes	28,986	69,680
Ministry of Finance Treasury Bills	-	45,816
Total investment securities held to maturity	**28,986**	**115,496**

10 Investment Securities Held to Maturity (Continued)

The movement in investment securities held to maturity is as follows:

In thousands of GEL	2010	2009
Gross amount at 1 January	**115,496**	**21,207**
Reclassification into investment securities available for sale	(115,496)	-
Additions	27,921	215,196
Redemption at maturity	-	(120,906)
Interest income accrual (Note 28)	1,577	15,442
Interest income received	(512)	(15,443)
Gross amount at 31 December	**28,986**	**115,496**

The Group reclassified certificates of deposits issued by the National Bank of Georgia and Ministry of Finance Treasury bills into the available-for-sale category during 2010. The reclassification was made as management views these assets as liquid assets that are readily saleable in case of necessity to match cash outflows on financial liabilities.

Refer to Note 37 for the disclosure of the fair value of investment securities held to maturity. Interest rate analysis of investment securities held to maturity is disclosed in Note 33. Information on related party investment securities held to maturity is disclosed in Note 39.

11 Other Financial Assets

In thousands of GEL	2010	2009
Receivable on terminated leases	5,474	4,206
Other financial receivables	3,028	3,870
Receivables on guarantees	475	2,604
Debtors from foreclosed assets	-	1,109
Debtors from investing activities	-	782
Debtors from sale of available for sale instruments	-	589
Fee receivable on guarantees	-	435
Trading securities	-	82
Other	259	220
Less: Provision for impairment	(4,997)	(6,888)
Total other financial assets	**4,239**	**7,009**

Movements in the provision for impairment of other financial assets during 2010 are as follows:

In thousands of GEL	Receivables on terminated leases	Receivables on guarantees	Other	Total
Provision for impairment at 1 January 2010	**4,206**	**2,604**	**78**	**6,888**
Provision for impairment during the year	433	-	280	**713**
Amounts written off during the year as uncollectible	-	(2,604)	-	**(2,604)**
Provision for impairment at 31 December 2010	**4,639**	**-**	**358**	**4,997**

11 Other Financial Assets (Continued)

Movements in the provision for impairment of other financial assets during 2009 are as follows:

In thousands of GEL	Receivables on terminated leases	Receivables on guarantees	Other	Total
Provision for impairment at 1 January 2010	**-**	**-**	**-**	**-**
Provision for impairment during the year*	4,206	2,604	78	6,888
Provision for impairment at 31 December 2010	**4,206**	**2,604**	**78**	**6,888**

*The provision for impairment during 2009 differs from the amount presented in profit or loss for the year due to GEL 6,709 thousand recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

Analysis by credit quality of other financial receivables is as follows:

In thousands of GEL	2010	2009
Current and not impaired		
- Fee receivable on guarantees	475	435
- Receivables on credit card services	412	1,257
- Trade receivables	336	
- Trading securities	2	82
- Receivables on money transfer services	184	9
- Other receivables	1,995	5,304
Total current and not impaired	**3,404**	**7,087**
Receivables individually determined to be impaired (gross)		
- Receivables on terminated leases - impaired	5,474	4,206
- Other receivables - impaired	358	-
- Receivables on guarantees - impaired	-	2,604
Total individually impaired (gross)	**5,832**	**6,810**
Less impairment provision	**(4,997)**	**(6,888)**
Total other financial assets	**4,239**	**7,009**

12 Investments in Finance Lease

Investments in finance lease of GEL 9,681 thousand (2009: GEL 14,090 thousand) are represented by leases of equipment. Financial lease receivables are collateralised by leased equipment.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of GEL	Due in 1 year	Due between 2 and 5 years	Total
Finance lease payments receivable at 31 December 2010	**7,401**	**5,807**	**13,208**
Unearned finance income	(1,798)	(1,215)	**(3,013)**
Impairment loss provision	(307)	(207)	**(514)**
Present value of lease payments receivable at 31 December 2010	**5,296**	**4,385**	**9,681**
Finance lease payments receivable at 31 December 2009	**9,331**	**11,027**	**20,358**
Unearned finance income	(2,855)	(2,484)	**(5,339)**
Impairment loss provision	(41)	(888)	**(929)**
Present value of lease payments receivable at 31 December 2009	**6,435**	**7,655**	**14,090**

12 Investments in Finance Lease (Continued)

At 31 December 2010 the estimated fair value of financial lease receivables was GEL 9,681 thousand (2009: GEL 14,090 thousand). Refer to Note 37.

Movements in the provision for impairment of net investment in finance lease are as follows:

In thousands of GEL	31 December 2010	31 December 2009
Provision for impairment at the beginning of the year	**929**	**2,320**
(Recovery) / provision for impairment during the year	900	(445)
Amounts written off during the year as uncollectible	(1,203)	(332)
Transfer from receivable from terminated leases	(112)	(614)
Provision for impairment at the end of the year	**514**	**929**

13 Other Assets

In thousands of GEL	2010	2009
Inventories of repossessed collateral	80,228	63,321
Prepaid taxes other than income tax	5,758	2,096
Assets repossessed from terminated leases	2,071	-
Prepayments for purchase of leasing assets	1,691	54
Inventories	1,646	1,446
Prepayments for other assets	1,332	1,663
Assets purchased for leasing purposes	1,143	462
Prepayments for construction in progress	396	153
Prepaid insurance of leasing assets	156	-
Other	407	2,681
Total other assets	**94,828**	**71,876**

Inventories of repossessed collateral represents real estate assets and equipment acquired by the Group in settlement of overdue loans, other than those classified as investment property. The Group expects to dispose of the assets in the foreseeable future. The assets are not classified as held for sale under IFRS 5 because the Group has yet to start to actively market them for sale. Such assets were initially recognised at fair value and re-measured at lower of cost of net realisable value.

14 Premises, Equipment and Intangible Assets

In thousands of GEL	Note	Premises and leasehold improve-ments	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2009		94,624	65,487	31,881	**191,992**	8,028	200,020
Accumulated depreciation/amortization		(8,818)	(20,747)	(1,925)	**(31,490)**	(2,589)	(34,079)
Carrying amount at 1 January 2009		**85,806**	**44,740**	**29,956**	**160,502**	**5,439**	**165,941**
Additions		811	7,230	2,691	**10,732**	1,446	**12,178**
Transfers		11,118	-	(11,118)	**-**	-	**-**
Transfers to Investment Property		(3,134)	-	(1,517)	**(4,651)**	-	**(4,651)**
Disposals		(758)	(2,637)	-	**(3,395)**	(166)	**(3,561)**
Depreciation/amortisation charge	32	(3,688)	(12,965)	-	**(16,653)**	(1,630)	**(18,283)**
Elimination of accumulated depreciation/amortisation on disposals and transfers to investment property		312	1,444	-	**1,756**	89	**1,845**
Carrying amount at 31 December 2009		**90,467**	**37,812**	**20,012**	**148,291**	**5,178**	**153,469**
Cost or valuation at 31 December 2009		102,661	70,080	21,937	**194,678**	9,308	**203,986**
Accumulated depreciation/amortisation		(12,194)	(32,268)	(1,925)	**(46,387)**	(4,130)	**(50,517)**
Carrying amount at 31 December 2009		**90,467**	**37,812**	**20,012**	**148,291**	**5,178**	**153,469**
Additions		1,250	7,483	6,450	**15,183**	1,340	**16,523**
Transfers		50	-	(50)	**-**	-	**-**
Transfers to Investment Property		(310)	-	(2,196)	**(2,506)**	-	**(2,506)**
Reclassification to disposal group held for sale		-	(475)	-	**(475)**	(2,216)	**(2,691)**
Disposals		-	(3,513)	(157)	**(3,670)**	(48)	**(3,718)**
Impairment charge to profit and loss		-	(1,434)	(192)	**(1,626)**	-	**(1,626)**
Depreciation/amortisation charge	32	(4,034)	(8,703)	-	**(12,737)**	(1,164)	**(13,901)**
Elimination of accumulated depreciation/amortisation on disposals, transfers to investment property and reclassification to disposal group held for sale		199	1,770	-	**1,969**	470	**2,439**
Carrying amount at 31 December 2010		**87,622**	**32,940**	**23,867**	**144,429**	**3,560**	**147,989**
Cost or valuation at 31 December 2009		103,651	72,141	25,792	**201,584**	8,384	**209,968**
Accumulated depreciation/amortisation including accumulated impairment loss		(16,029)	(39,201)	(1,925)	**(57,155)**	(4,824)	**(61,979)**
Carrying amount at 31 December 2010		**87,622**	**32,940**	**23,867**	**144,429**	**3,560**	**147,989**

14 Premises, Equipment and Intangible Assets (Continued)

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises.

Premises have been revalued to market value at 31 December 2008. The valuation was carried out by an independent firm of valuers which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was discounted cash flow, integrated cost estimation and sales comparison method. Fair values were estimated using appropriate valuation techniques using the following assumptions: certain weights were assigned to the results obtained using abovementioned methods, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifics of the estimated property.

At 31 December 2010 the carrying amount of premises would have been GEL 70,220 thousand (2009: GEL 54,363 thousand) had the assets been carried at cost less depreciation. At 31 December 2010 the carrying amount of construction in progress would have been GEL 18,001 thousand (2009: GEL 14,404 thousand) had the assets been carried at cost less depreciation.

15 Investment Properties

In thousands of GEL	**2010**	**2009**
Investment properties at cost as at 1 January	**9,785**	-
Transfer from property, plant and equipment	2,507	4,651
Repossessed assets from foreclosed loans	15,936	5,149
Disposals	(225)	-
Less depreciation charge	(261)	(15)
Investment properties as at 31 December	**27,742**	**9,785**

Land is not depreciated. Depreciation on other items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 30 to 50 years. Residual values of investment properties are estimated to be nil.

At 31 December 2010, investment properties comprised of 13 lots of land and 25 buildings located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 41,914 thousand.

16 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In thousands of GEL	**Note**	**2010**	**2009**
Carrying amount at 1 January		**1,958**	**2,020**
Transfer to non-current assets held for sale	17	(696)	-
Impairment loss	31	-	(62)
Carrying amount at 31 December		**1,262**	**1,958**
Gross book value		1,262	2,499
Accumulated impairment losses		-	(541)
Carrying amount at 31 December		**1,262**	**1,958**

16 Goodwill (Continued)

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

In thousands of GEL	2010	2009
JSC United Financial Corporation	-	696
LLC TBC Kredit	1,262	1,262
Total carrying amount of goodwill	**1,262**	**1,958**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by Management covering a five-year period.

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports.

If the revised estimated after-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 10% higher than Management's estimates, the Group would not need to reduce the carrying value of goodwill. Had impairment been recognised, the Group would not be able to reverse any impairment losses that arose on goodwill in subsequent periods even if circumstances improve. Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 11,291 thousand. The CGUs' carrying amount would equal to value in use at a discount rate of 13.98% p.a.

17 Disposal Group Held for Sale

The assets and liabilities related to JSC United Financial Corporation have been presented as held for sale following the approval of the Group's management and shareholders on 20 December 2010 to sell company JSC United Financial Corporation. The completion date for the transaction is expected by May 2011.

Major classes of non-current assets classified as held for sale (or disposal groups) are as follows:

In thousands of GEL	2010
Assets of a disposal group held for sale:	
Current income tax prepayment	53
Deferred income tax asset	136
Other assets	234
Intangible assets	2,216
Premises and equipment	476
Total non-current assets classified as disposal groups	**3,115**

17 Disposal Group Held for Sale (Continued)

Major classes of liabilities directly associated with disposal groups held for sale are as follows:

In thousands of GEL	**2010**
Other liabilities	300
Total liabilities directly associated with disposal groups held for sale	**300**

An analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets or disposal group is as follows:

In thousands of GEL	**2010**	**2009**
Revenue	305	232
Expenses	(2,229)	(1,984)
Loss before tax of discontinued operations	(1,924)	(1,752)
Income tax relating to profit before tax of discontinued operations	(66)	(15)
Loss after tax of discontinued operations	(1,990)	(1,767)
Pre-tax loss recognised on the re-measurement of net assets constituting the discontinued operation to the lower of carrying amount and fair value less costs to sell	(1,519)	-
Income tax effect of re-measurement	228	-
Loss for the year from discontinued operations	**(3,281)**	**(1,767)**

An analysis of the cash flows of discontinued operations is as follows:

In thousands of GEL	**2010**	**2009**
Operating cash flows	(1,943)	(1,544)
Investing cash flows	(1,048)	(468)
Financing cash flows	-	-
Total cash flows	**(2,991)**	**(2,012)**

18 Due to Other Banks

In thousands of GEL	**2010**	**2009**
Correspondent accounts and overnight placements of other banks	3,570	4,939
Term placements of banks and financial institutions	43,431	22,427
Loans from banks and financial institutions	761	-
Total due to other banks	**47,762**	**27,366**

Refer to Note 37 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

19 Customer Accounts

In thousands of GEL	2010	2009
State and public organisations		
- Current/settlement accounts	44,287	24,998
- Term deposits	5,940	7,708
Other legal entities		
- Current/settlement accounts	359,854	231,373
- Term deposits	103,288	56,465
Individuals		
- Current/demand accounts	350,228	259,114
- Term deposits	501,755	411,514
Total customer accounts	**1,365,352**	**991,172**

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2010		2009	
In thousands of GEL	Amount	%	Amount	%
Individuals	851,983	62%	670,628	68%
Trade and services	263,853	19%	143,017	14%
Construction	38,555	3%	27,940	3%
Government	22,115	2%	3,864	0%
Energy	12,934	1%	4,448	0%
Transport and communication	11,245	1%	9,999	1%
Mining and natural resource processing	4,709	0%	1,375	0%
Agriculture	602	0%	98	0%
Other	159,356	12%	129,803	13%
Total customer accounts	**1,365,352**	**100%**	**991,172**	**100%**

At 31 December 2010 the Group had 10 customers (2009: 11 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 75,449 thousand (2009: GEL 65,157 thousand) or 9% (2009: 7%) of total customer accounts.

At 31 December 2010 included in customer accounts are deposits of GEL 9,840 thousand and GEL 87,058 thousand (2009: GEL 2,435 thousand and GEL 60,685 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 35.

Refer to Note 37 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

20 Provisions for Liabilities, Charges and Credit Related Commitments

Movements in provisions for liabilities and charges are as follows:

In thousands of GEL	Credit related commitments	Other	Total
Carrying amount at 1 January 2009	**5,324**	**-**	**5,324**
(Recovery) / Additions recorded in profit or loss	(1,535)	1,500	**(35)**
Carrying amount at 1 January 2010	**3,789**	**1,500**	**5,289**
Additions recorded in profit or loss	1,992	1,100	**3,092**
Amounts written off during the year	-	(1,500)	**(1,500)**
Carrying amount at 31 December 2010	**5,781**	**1,100**	**6,881**

Credit related commitments: Specific provision was created against losses incurred on financial guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated. The balance at 31 December 2010 is expected to be utilised by March 2011.

The information on related party balances is disclosed in Note 39.

21 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of GEL	2010	2009
Trade payables	1,953	4,055
Debit or credit card payables	36	928
Security deposits for finance lease	1,073	525
Other accrued liabilities	870	217
Total other financial liabilities	**3,932**	**5,725**

Refer to Note 37 for disclosure of the fair value of other financial liabilities.

22 Other Liabilities

Other financial liabilities comprise the following:

In thousands of GEL	2010	2009
Taxes payable other than on income	7,661	3,376
Accrued employee benefit costs	9,732	2,710
Other	2,288	516
Total other liabilities	**19,681**	**6,602**

23 Other Borrowed Funds

At 31 December 2010, other borrowed funds comprised following:

In thousands of GEL	Outstanding amount in original currency			Outstanding amount in GEL
	GEL	**USD**	**EUR**	
International financial institutions	-	64,374	18	114,164
Local banks and financial institutions	55,011	-	-	55,011
Foreign banks and financial institutions	4,398	59,016	-	109,022
Other financial institutions	-	891	480	2,709
Total	**59,409**	**124,281**	**498**	**280,906**

At 31 December 2009, other borrowed funds comprised:

In thousands of GEL	Outstanding amount in original currency		Outstanding amount in GEL
	GEL	**USD**	
International financial institutions		46,626	78,601
Foreign banks and financial institutions	8,742	79,368	142,540
Other financial institutions	-	1,340	2,260
Total	**8,742**	**127,334**	**223,401**

Refer to Note 37 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 33. Information on related party balances is disclosed in Note 39.

24 Subordinated Debt

At 31 December 2010, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Interest rate per annum	Outstanding amount in original currency USD	Outstanding amount in GEL
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	30-May-07	15-Apr-14	Libor+6.25%	20,191	35,795
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	Libor+10%	18,611	32,993
International Financial Corporation	23-Apr-09	12-Nov-18	Libor+10%	18,570	32,920
Deutsche Investitions und Entwicklungsgesellschaft MBH	24-Feb-06	15-Feb-12	11%	10,534	18,675
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jun-18	Libor+6.5%	10,348	18,345
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	Libor+10%	7,042	12,484
International Financial Corporation	16-Dec-04	15-Dec-11	Libor+4.5%	4,055	7,189
Total subordinated debt				**89,351**	**158,401**

24 Subordinated debt (Continued)

At 31 December 2009, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Interest rate per annum	Outstanding amount in original currency USD	Outstanding amount in GEL
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	30-May-07	15-Apr-14	Libor+6.25%	20,168	34,000
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	Libor+10%	18,594	31,345
International Financial Corporation	23-Apr-09	12-Nov-18	Libor+10%	18,543	31,260
Deutsche Investitions und Entwicklungsgesellschaft MBH	24-Feb-06	15-Feb-12	11%	10,489	17,683
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jun-18	Libor+6.5%	10,358	17,462
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	Libor+10%	7,035	11,860
International Financial Corporation	16-Dec-04	15-Dec-11	Libor+4.5%	4,000	6,743
Total subordinated debt				**89,187**	**150,353**

The debt ranks after all other creditors in case of liquidation.

Refer to Note 37 for the disclosure of the fair value of each class of amounts due to other banks. Information on related party balances is disclosed in Note 39.

25 Share Capital

In thousands of GEL except for number of shares	Number of outstanding shares	Ordinary shares	Share premium	Total
At 1 January 2009	**117,000**	**11,700**	**138,748**	**150,448**
New shares issued	33,000	3,300	62,700	**66,000**
Share based payments	-	-	275	**275**
At 31 December 2009	**150,000**	**15,000**	**201,723**	**216,723**
New shares issued	1,131	113	-	**113**
At 31 December 2010	**151,131**	**15,113**	**201,723**	**216,836**

All ordinary shares have a nominal value of GEL 100 per share (2009: GEL 100 per share) and rank equally. Each share carries one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

26 Share Based Payments

In November 2005, the Supervisory Board of the Group resolved to award 2,834 options to purchase the Bank's ordinary shares to the Bank's top management. Each share option converts into one ordinary share of JSC TBC Bank on exercise at the nominal value of GEL 100 each. The options carry neither rights to dividends nor voting rights. Share options are subject to 5 year vesting period. The fair value of the share options as at the grant date was estimated at GEL 2,420 per share option. Management expenses granted share options in operating expenses within staff costs.

In GEL except for number of share options	2010	2009
Cumulative number of share options granted	2,834	2,834
Number of options outstanding at the beginning of the year	1,133	1,133
Number of share options exercised	(1,133)	-
Number of options outstanding at the end of the year	-	1,133
Number of options exercisable at the end of the year	-	113
Value at grant date per share option (GEL)	2,420	2,420
Expense recognised as staff cost during the year	**-**	**273**

27 Other Reserves

In thousands of GEL	Revaluation reserve for Premises	Revaluation reserve for Available for sale securities	Cumulative currency translation reserve	Total other reserves
At 1 January 2009	**29,013**	**1,335**	**2,439**	**32,787**
Fair value of investments available for sale	-	1,072	-	1,072
Realised revaluation reserve	-	(788)	-	(788)
Currency translation	-	-	(224)	(224)
Income tax effects	-	(41)	-	(41)
At 31 December 2009	**29,013**	**1,578**	**2,215**	**32,806**
Fair value of investments available for sale	-	(286)	-	(286)
Realised revaluation reserve	(2,129)	-	-	(2,129)
Currency translation	-	-	1,062	1,062
Income tax effects	319	41	-	360
At 31 December 2010	**27,203**	**1,333**	**3,277**	**31,813**

Revaluation reserve for available for sale securities is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for premises and equipment is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal.

28 Interest Income and Expense

In thousands of GEL	2010	2009
Interest income		
Loans and advances to customers	247,289	240,603
Investment securities available for sale (Note 9)	10,317	-
Investment securities held to maturity (Note 10)	1,577	15,442
Investments in leases	3,856	5,904
Due from other banks	8,766	2,983
Other	-	2
Total interest income	**271,805**	**264,934**
Interest expense		
Due to other banks	28,377	39,159
Term deposits of individuals	47,154	36,978
Current/settlement accounts	24,613	17,526
Term deposits of legal entities	5,770	5,769
Term placements of other banks	1,688	2,716
Correspondent accounts of other banks	50	122
Other	1,339	422
Total interest expense	**108,991**	**102,692**
Net interest income	**162,814**	**162,242**

29 Fee and Commission Income and Expense

In thousands of GEL	2010	2009
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Plastic card operations	11,436	10,145
- Guarantees issued (Note 36)	6,647	5,603
- Settlement transactions	5,617	5,615
- Cash transactions	3,916	3,392
- Foreign exchange operations	1,118	479
- Other	1,098	745
Total fee and commission income	**29,832**	**25,979**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Guarantees received	4,682	4,585
- Plastic card operations	3,671	2,279
- Settlement transactions	916	1,770
- Cash transactions	244	135
- Foreign exchange operations	67	12
- Other	1,480	246
Total fee and commission expense	**11,060**	**9,027**
Net fee and commission income	**18,772**	**16,952**

30 Other Operating Income

In thousands of GEL	**2010**	**2009**
Fee income for temporary retention of repossessed collateral	1,887	-
Revenues from operational leasing	1,804	144
Revenues from sales of pay-box terminals	1,722	-
Administrative fee income from international financial institutions	1,040	1,291
Net gain on terminated finance lease contracts	815	2,672
Revenues from non-credit related fines	461	800
Gain on disposal of premises and equipment	-	304
Revenues from issuance of letters of credit	282	810
Reimbursement from insurer	178	211
Gain from sale of associate	-	1,658
Other	406	1,582
Total other operating income	**8,595**	**9,472**

31 Administrative and Other Operating Expenses

In thousands of GEL	**Note**	**2010**	**2009**
Staff costs		57,146	48,870
Depreciation and amortisation	14	13,902	18,283
Write-down of current assets to fair value less costs to sell		9,394	-
Occupancy and rent		6,810	7,101
Professional services		6,352	9,489
Advertising and marketing services		4,794	7,099
Communications and supply		2,371	3,061
Insurance		1,400	1,753
Taxes other than on income		1,519	1,720
Loss on disposal of premises and equipment		1,256	-
Transportation and vehicle maintenance		1,008	1,230
Stationery and other office expenses		1,056	955
Security services		858	1,527
Intangible asset maintenance		843	
Charity	39	694	4,007
Business trip expenses		423	311
Impairment of goodwill	16	-	62
Other		6,570	6,101
Total administrative and other operating expenses		**116,396**	**111,569**

32 Income Taxes

Income tax expense comprises the following:

In thousands of GEL	**2010**	**2009**
Current tax charge	637	1,094
Deferred tax charge / (credit)	6,285	(113)
Income tax expense for the year	**6,922**	**981**

The income tax rate applicable to the majority of the Group's income is 15% (2009: 15%). The income tax rate applicable to the majority of subsidiaries income ranges from 15% to 20% (2009: 15% - 20%).

32 Income Taxes (Continued)

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of GEL	2010	2009
Profit before tax from continuing operations	**59,638**	**5,708**
Theoretical tax charge at statutory rate (2010: 15%; 2009: 15%)	8,946	856
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(1,995)	-
- Non deductible expenses	304	177
- Other differences	(355)	(278)
Unrecognised tax loss carry forwards	-	208
Effect of change in tax rate	22	18
Income tax expense for the year	**6,922**	**981**

A deferred tax income of GEL 360 thousand (2009: deferred tax expense GEL 41) has been recorded directly in other comprehensive income in respect of the fair valuation of investment securities available for sale and premises. Refer to Notes 9, 15 and 27.

Differences between IFRS and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2009: 15%).

In thousands of GEL	31 December 2009	(Charged)/ credited to profit or loss	(Charged) / credited directly to other comprehensive income	31 December 2010
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(18,226)	727	319	(17,180)
Loan impairment provision	4,936	805	-	5,741
Fair valuation of investment securities available for sale	(276)	-	41	(235)
Tax loss carry forwards	12,892	(7,680)	-	5,212
Other assets	131	1,407	-	1,538
Investment in leases	78	(14)	-	64
Investment property	(614)	(1,996)	-	(2,610)
Other liabilities	(290)	466	-	176
Net deferred tax asset/(liability)	**(1,369)**	**(6,285)**	**360**	**(7,294)**

In the context of the Group’s current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

32 Income Taxes (Continued)

In thousands of GEL	31 December 2008	(Charged)/ credited to profit or loss	(Charged) / credited directly to other comprehensive income	31 December 2009
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(19,159)	933	-	(18,226)
Loan impairment provision	3,022	1,914	-	4,936
Fair valuation of investment securities available for sale	(235)	-	(41)	(276)
Tax loss carry forwards	16,354	(3,462)	-	12,892
Other assets	104	27	-	131
Investment in leases	-	78	-	78
Investment property	-	(614)	-	(614)
Other liabilities	(1,527)	1,237	-	(290)
Net deferred tax asset/(liability)	**(1,441)**	**113**	**(41)**	**(1,369)**

33 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk which 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 Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 35.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by Management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Group established a number of credit committees which are responsible for approving credit limits for individual borrowers:

- The senior credit committee reviews and approves limits to corporate sector above GEL 2,000 thousand and meets daily;

33 Financial Risk Management (Continued)

- The junior credit committee meets daily and reviews and approves limits to:
  - ✓ Corporate sector below GEL 2,000 thousand
  - ✓ SME sector above GEL 1,500 thousand, or for increased risk clients above GEL 500 thousand
  - ✓ Retail sector, above USD 500 thousand equivalent, or for increased risk clients above USD 200 thousand equivalent;
- The Small and Micro (SME) credit committees review and approve credit limits below GEL 1,500 thousand and meet daily;
- The retail credit committee reviews and approves credits related to retail sector below USD 500 thousand equivalent and meets daily.

Loan applications originated by the relevant client relationship managers are passed on to the relevant Credit Committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Board of Directors and Supervisory Board.

The Group's credit department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Notes 8, 9, and 13.

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

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

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

	At 31 December 2010				**At 31 December 2009**			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	562,357	467,570	364	95,151	356,070	290,798	(12,039)	53,233
US Dollars	1,214,034	1,187,328	(664)	26,042	949,985	926,366	12,099	35,718
Euros	186,447	186,821	-	(374)	177,280	177,577	-	(297)
Other	27,507	14,634	-	12,873	15,404	3,276	-	12,128
Total	**1,990,345**	**1,856,353**	**(300)**	**133,692**	**1,498,739**	**1,398,017**	**60**	**100,782**

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

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

33 Financial Risk Management (Continued)

	At 31 December 2010		At 31 December 2009	
In thousands of GEL	Impact on profit or loss before tax	Impact on equity	Impact on profit or loss before tax	Impact on equity
US Dollars strengthening by 10%	2,604	2,213	(3,571)	(3,035)
US Dollars weakening by 10%	(2,604)	(2,213)	3,571	3,035
Euro strengthening by 10%	(37)	(32)	(29)	(25)
Euro weakening by 10%	37	32	29	25
Other strengthening by10%	1,287	1,094	(1,219)	(1,036)
Other weakening by 10%	(1,287)	(1,094)	1,219	1,036

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

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a monthly basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

Interest rate risk is managed within the limit framework as established in accordance with the standards set by the Group. Interest rate risks are controlled via modified interest rate gap reporting. Scenario analysis is conducted quarterly in order to analyse earnings and economic value sensitivity and monitor limits set by Asset & Liability Management committee. Interest rate hedging instruments utilized include Interest Rate CAP options on floating rate borrowings.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of GEL	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2010					
Total financial assets	639,997	316,693	202,493	831,162	1,990,345
Total financial liabilities	937,664	276,675	259,996	382,018	1,856,353
Net interest sensitivity gap at 31 December 2010	**(297,667)**	**40,018**	**(57,503)**	**449,144**	**133,992**
31 December 2009					
Total financial assets	480,958	311,212	154,944	551,625	1,498,739
Total financial liabilities	613,816	218,700	233,863	331,638	1,398,017
Net interest sensitivity gap at 31 December 2009	**(132,858)**	**92,512**	**(78,919)**	**219,987**	**100,722**

At 31 December 2010, if interest rates at that date had been 200 basis points lower with all other variables held constant, profit for the year would have been GEL 7,090 thousand (2009: GEL 3,301 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 200 basis points higher, with all other variables held constant, profit would have been GEL 7,090 thousand (2009: GEL 3,301 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

33 Financial Risk Management (Continued)

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

	2010				2009			
In % p.a.	**GEL**	**USD**	**Euro**	**Other**	**GEL**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	2%	1%	1%	2%	1%	3%	-	2%
Due from other banks	-	-	5%	-	-	2%	2%	-
Loans and advances to customers	22%	15%	14%	13%	24%	17%	16%	12%
Investment securities held to maturity	13%	-	-	-	4%	-	-	-
Liabilities								
Due to other banks	8%	1%	2%	-	4%	4%	1%	-
Customer accounts								
- current and settlement accounts	7%	5%	5%	5%	4%	6%	5%	2%
- term deposits	11%	9%	10%	10%	11%	11%	11%	11%
Other borrowed funds	8%	5%	3%	-	6%	5%	-	-
Subordinated debt	-	10%	-	-	-	10%	-	-

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

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2010 is set out below:

In thousands of GEL	**Georgia**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	147,513	119,941	7,971	275,425
Due from other banks	59,471	1,153	14,112	74,736
Loans and advances to customers	1,347,189	-	33,766	1,380,955
Investment securities available for sale	216,323	-	-	216,323
Investment securities held to maturity	28,986	-	-	28,986
Investments in leases	9,681	-	-	9,681
Other financial assets	4,239	-	-	4,239
Total financial assets	**1,813,402**	**121,094**	**55,849**	**1,990,345**
Non-financial assets	**277,436**	**-**	**-**	**277,436**
Total assets	**2,090,838**	**121,094**	**55,849**	**2,267,781**
Liabilities				
Due to other banks	45,410	-	2,352	47,762
Customer accounts	1,365,352	-	-	1,365,352
Other borrowed funds	127,436	151,216	2,254	280,906
Other financial liabilities	3,932	-	-	3,932
Subordinated debt	-	158,401	-	158,401
Total financial liabilities	**1,542,130**	**309,617**	**4,606**	**1,856,353**
Non-financial liabilities	**34,150**	**-**	**-**	**34,150**
Total liabilities	**1,576,280**	**309,617**	**4,606**	**1,890,503**
Net balance sheet position	**514,558**	**(188,523)**	**51,243**	
Credit related commitments	**99,528**	**-**	**-**	**99,528**

33 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Georgian counterparties actually outstanding to/from off-shore companies of these Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group's assets and liabilities at 31 December 2009 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	161,907	169,818	1,123	332,848
Due from other banks	36,655	594	-	37,249
Loans and advances to customers	988,428	-	-	988,428
Investment securities available for sale	3,619	-	-	3,619
Investment securities held to maturity	115,496	-	-	115,496
Investments in leases	14,090	-	-	14,090
Other financial assets	7,009	-	-	7,009
Total financial assets	**1,327,204**	**170,412**	**1,123**	**1,498,739**
Non-financial assets	**239,281**	**-**	**-**	**239,281**
Total assets	**1,566485**	**170,412**	**1,123**	**1,738,020**
Liabilities				
Due to other banks	27,366	-	-	27,366
Customer accounts	991,172	-	-	991,172
Other borrowed funds	88,855	129,981	4,565	223,401
Other financial liabilities	5,725	-	-	5,725
Subordinated debt	-	150,353	-	150,353
Total financial liabilities	**1,113,118**	**280,334**	**4,565**	**1,398,017**
Non-financial liabilities	**13,260**	**-**	**-**	**13,260**
Total liabilities	**1,126,378**	**280,334**	**4,565**	**1,411,277**
Net balance sheet position	**440,107**	**(109,922)**	**(3,442)**	
Credit related commitments	**65,385**	**-**	**-**	**65,385**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. Short-term and long-term liquidity risk is managed by Financial Risk Management and Treasury Departments and monitored by the Asset/Liability Management Committee of the Group.

33 Financial Risk Management (Continued)

The principal objectives of the Group's liquidity policy are:

- To ensure the availability of funds in order to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price;
- To recognize the structural mismatch that exists within the Group's statement of financial position and set monitoring ratios to manage funding in line with well balanced growth
- To meet qualitative and quantitative regulatory requirements for the management of liquidity risk

For the purpose of reliable liquidity risk management, the Group has adopted maturity mismatch approach and developed Liquidity Mismatch Model which is in accordance with Basel Principle for Sound Liquidity Risk Management (Principle No 5). The framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over the certain time bands.
The model requires:

- To analyze cash flows under various heading and place them in predetermined time bands based on residual contractual maturity
- To apply behavioral adjustments, supported by documentary evidence, to cash flows of certain product types
- To calculate net mismatches by time period, according to Liquidity Coverage Ratio definition: Qualified Liquid Assets + Total Inflow/Total Outflow
- To assess the level of mismatch on net cumulative bases
- To control level of net mismatches via Prudential Limits

Critical Limits are set for the following time bands: 0-8 days, 9-30 days and 30-60 days, with the corresponding liquidity coverage ratio limits of 150%, 120% and 100% respectively.

The results of liquidity calculated using Liquidity Mismatch Model are additionally stress-tested using large shock scenario defined by National Bank of Georgia (The "NBG"). Liquidity coverage internal limits in stress conditions are set at 100% for the first three time bands.

The Group calculates Internal Liquidity Coverage Ratio and Stress test on weekly basis.

As a complement to Liquidity Mismatch model and Stress testing, the Group has adopted Liquidity Contingency Plan which is part of Group's Prudential Liquidity policy, to meet the overall funding and liquidity requirements. It is designed to enable the Group to maintain its core business in deteriorating liquidity conditions and to emerge from a liquidity crisis as a creditworthy organisation.

The Bank calculates liquidity ratio on a daily basis in accordance with the requirement of the Financial Supervising Agency of Georgia. This ratio is:

- Average liquidity ratio (LK, not less than 30%), which is calculated as the ratio of average liquid assets to average liquid liabilities for respective month, including borrowings from financial institutions with residual maturity up to 6 months and off-balance sheet liabilities up to 6 months; on demand; The ratio was 32.77% at 31 December 2010 (2009: 39.76%%).

The Treasury Department forecasts liquidity profile of the financial assets and liabilities according to balance sheet cash flow model, where the figures are represented in major operating currencies and cash surplus or deficit is transparent.

According to daily cash flow forecasts, and the surplus in liquidity standing, Treasury Department places funds in short-term liquid assets, largely made up of short-term risk free securities, interbank deposits and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is managed according to balance sheet cash flow models, which are the part of assets/liabilities management processs. The Asset/Liability Management Committee sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

33 Financial Risk Management (Continued)

For liquidity management purposes, the minimum stock of liquid assets to Liabilities/Assets and concentration limits in Assets and Liabilities are set by the Asset/Liability Management Committee and controlled by the Financial Risks Management Department.

The table below summarizes the maturity analysis of the Group's financial liabilities as at 31 December 2010 based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

In thousands of GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	47,766	-	-	-	-	47,766
Customer accounts – individuals	390,097	107,024	300,893	64,096	7,182	869,292
Customer accounts – other	412,122	18,766	69,155	12,089	8,867	520,999
Other financial liabilities	4,013	-	-	-	-	4,013
Other borrowed funds	84,418	2,236	44,914	93,584	64,185	289,337
Subordinated debt	17	2,048	10,165	87,080	67,583	166,893
Gross settled forwards	356	-	-	-	-	356
Financial guarantees	7,881	11,378	57,611	28,662	26,692	132,224
Other credit related commitments	99,528	-	-	-	-	99,528
Total potential future payments for financial obligations	**1,046,198**	**141,452**	**482,738**	**285,511**	**174,509**	**2,130,408**

The maturity analysis of financial liabilities at 31 December 2009 is as follows:

In thousands of GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	10,543	10,764	5,177	876	2,448	29,808
Customer accounts – individuals	294,468	88,491	108,230	165,123	29,811	686,123
Customer accounts – other	267,679	14,241	21,806	13,524	3,629	320,879
Other financial liabilities	11,175	122	-	-	-	11,297
Other borrowed funds	12,112	3,239	66,204	174,645	8,145	264,345
Subordinated debt	3,969	-	15,094	128,142	98,276	245,481
Gross settled forwards	971	17,555	-	-	-	18,526
Financial guarantees	8,974	8,886	43,910	10,876	78	72,724
Other credit related commitments	65,385	-	-	-	-	65,385
Total potential future payments for financial obligations	**675,276**	**143,298**	**260,421**	**493,186**	**142,387**	**1,714,568**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Georgian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

33 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2010:

In thousands of GEL	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	271,879	3,546	-	-	-	**275,425**
Due from other banks	58,576	-	16,160	-	-	**74,736**
Loans and advances to customers	121,435	104,358	356,878	564,278	234,006	**1,380,955**
Investment securities available for sale	216,323	-	-	-	-	**216,323**
Investment securities held to maturity	-	-	-	28,986	-	**28,986**
Finance lease receivables	685	944	3,527	4,525	-	**9,681**
Other financial assets	4,239	-	-	-	-	**4,239**
Total financial assets	**673,137**	**108,848**	**376,565**	**597,789**	**234,006**	**1,990,345**
Liabilities						
Due to other banks	47,762	-	-	-	-	**47,762**
Customer accounts	802,052	123,638	360,115	66,540	13,007	**1,365,352**
Other borrowed funds	83,833	2,203	41,564	89,963	63,343	**280,906**
Other financial liabilities	3,932	-	-	-	-	**3,932**
Subordinated debt	-	2,048	7,103	84,553	64,697	**158,401**
Total financial liabilities	**937,579**	**127,889**	**408,782**	**241,056**	**141,047**	**1,856,353**
Net liquidity gap at 31 December 2010	**(264,442)**	**(19,041)**	**(32,217)**	**356,733**	**92,959**	**133,992**

The undiscounted financial liability analysis gap does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

In 2009, the management of the Group obtained a stand-by facility amounting to GEL 95,731 thousand from International Financial Institutions, which can be accessed to meet liquidity needs within less than one month period. This resource is not reflected in the above table.

The above analysis is based on expected maturities, therefore the entire portfolio of trading securities is classified within demand and less than one month based on Management's assessment of the portfolio's realisability.

33 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2009:

In thousands of GEL	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	321,047	11,801	-	-	-	**332,848**
Due from other banks	35,733		1,516			**37,249**
Loans and advances to customers	104,956	95,489	243,947	385,139	158,897	**988,428**
Investment securities available for sale					3,619	**3,619**
Investment securities held to maturity	11,480	68,536	35,480	-	-	**115,496**
Finance lease receivables	958	904	4,478	7,750	-	**14,090**
Other financial assets	7,009	-	-	-	-	**7,009**
Total financial assets	**481,183**	**176,730**	**285,421**	**392,889**	**162,516**	**1,498,739**
Liabilities						
Due to other banks	10,543	10,764	2,735	3,324	-	**27,366**
Customer accounts	574,592	100,799	282,793	30,354	2,634	**991,172**
Other borrowed funds	9,549	2,501	56,313	91,892	63,146	**223,401**
Other financial liabilities	5,603	122	-	-	-	**5,725**
Subordinated debt	2,105	-	-	72,050	76,198	**150,353**
Total financial liabilities	**602,392**	**114,186**	**341,841**	**197,620**	**141,978**	**1,398,017**
Net liquidity gap at 31 December 2009	**(121,209)**	**62,544**	**(56,420)**	**195,269**	**20,538**	**100,722**

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

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Moreover, the Group's liquidity risk management includes estimation of actual estimated maturities for its current deposits. The estimation is based on statistical methods applied to historic information on fluctuations of customer account balances.

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

34 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by NBG and (ii) to safeguard the Group's ability to continue as a going concern. Compliance with capital adequacy ratios set by NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and Chief Accountant.

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

In thousands of GEL	**2010**	**2009**
Share capital	216,836	216,723
Retained earnings	108,940	65,836
General loan loss provisions (up to 1.25 % of risk – weighted assets)	23,776	14,644
Less intangible assets	(3,375)	(3,728)
Less Investments into subsidiary companies and capital of other banks	(46,913)	(20,000)
Subordinated debt	104,099	116,388
Total regulatory capital	**403,363**	**389,863**

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of GEL	**2009**	**2009**
Tier 1 capital		
Share capital	216,836	216,723
Retained earnings	123,423	71,920
Less: Goodwill	(1,262)	(1,957)
Non-controlling interest	5,200	5,294
Total tier 1 capital	**344,197**	**291,980**
Tier 2 capital		
Revaluation reserves	31,816	32,806
Subordinated debt	104,099	116,387
Total tier 2 capital	**135,915**	**149,193**
Total capital	**480,112**	**441,173**

35 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Georgian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Georgian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the period of review. To respond to the risks, the Bank has engaged external tax specialists who are performing periodic reviews of Bank's taxation policies and tax filings, consequently the Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, and customs positions will be sustained. Accordingly, at 31 December 2010 no provision for potential tax liabilities has been recorded.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of GEL	**2010**	**2009**
Not later than 1 year	-	12
Later than 1 year and not later than 5 years	667	983
Later than 5 years	492	488
Total operating lease commitments	**1,159**	**1,483**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 31 December 2010.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

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

35 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

In thousands of GEL	Note	2010	2009
Guarantees issued		145,877	90,203
Undrawn credit lines		99,329	64,752
Letters of credit		18,377	632
Less: Provision for credit related commitments	21	(5,781)	(3,746)
Total credit related commitments		**257,802**	**151,841**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of credit related commitments was GEL 257,802 thousand at 31 December 2010 (2009: GEL 151,841 thousand). Credit related commitments are denominated in currencies as follows:

In thousands of GEL	2010	2009
Georgian Lari	62,907	61,316
US Dollars	158,436	73,972
Euro	28,522	18,567
Other	13,718	1,732
Total	**263,583**	**155,587**

36 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

	2010		**2009**	
In thousands of GEL	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair values, at the balance sheet date, of				
- USD payable on settlement (-)	-	(664)	-	-
- USD receivable on settlement (+)	-	-	12,099	-
- GEL payable on settlement (-)	-	-	-	(12,039)
- GEL receivable on settlement (+)	364	-	-	-
Fair value of foreign exchange forwards	**364**	**(664)**	**12,099**	**(12,039)**
Net fair value of foreign exchange forwards	**-**	**(300)**	**60**	**-**

37 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

	2010		2009	
In thousands of GEL	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
FINANCIAL ASSETS				
Cash and cash equivalents	275,425	275,425	332,848	332,848
Due from other banks	74,736	74,736	37,249	37,249
Loans and advances to customers:				
- Corporate loans	588,910	634,913	427,185	457,264
- Consumer loans	243,267	265,077	168,849	183,451
- Mortgage loans	230,286	241,679	154,584	166,512
- Small and micro loans	189,569	199,757	135,833	147,390
- Others	39,529	39,529	33,811	33,811
Investment securities held to maturity	29,224	28,986	115,496	115,496
Investments in leases	9,681	9,681	14,090	14,090
Other financial assets	4,239	4,239	6,927	6,927
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**1,684,866**	**1,774,022**	**1,426,872**	**1,495,038**
FINANCIAL LIABILITIES				
Due to other banks	47,768	47,768	27,366	27,366
Customer accounts	1,365,352	1,365,352	991,172	991,172
Other financial liabilities	3,932	3,932	5,725	5,725
Other borrowed funds	280,906	280,906	223,401	223,401
Subordinated debt	158,410	158,410	150,353	150,353
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**1,856,368**	**1,856,368**	**1,398,017**	**1,398,017**

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

Fair values of trading securities included in other financial assets are determined by quoted market prices (Level 1). Fair values of foreign exchange forwards were determined by management using valuation technique with inputs observable in markets (Level 2).

(c) The methods and assumptions applied in determining fair values.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Group used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in significantly different profit, income, total assets or total liabilities.

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

37 Fair Value of Financial Instruments (Continued)

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2010	2009
Due from other banks	2%	2%
Loans and advances to customers		
Corporate loans	21%	21%
Consumer loans	26%	28%
Mortgage loans	21%	21%
Small and Micro loans	20%	24%
Investment securities held to maturity	14%	4%
Due to other banks		
- Correspondent accounts and overnight placements of other banks	2%	2%
- Term deposits of banks and other financial institutions	8%	6%
Customer accounts		
Current/settlement accounts of legal entities	2%	2%
Term deposits of legal entities	11%	11%
Current/demand accounts of individuals	3%	4%
Term deposits of individuals	11%	11%
Other borrowed funds		
- Loans from banks and other financial institutions – USD	5%	5%
- Loans from banks and other financial institutions – GEL	6%	6%
Subordinated debt	10%	10%

38 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2010:

In thousands of GEL	Loans and receivables	Available for sale assets	Trading assets	Held to maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	-	275,425
Due from other banks	74,736	-	-	-	74,736
Loans and advances to customers:					
Corporate loans	634,913	-	-	-	634,913
Consumer loans	265,077	-	-	-	265,077
Mortgage loans	241,679	-	-	-	241,679
Small and Micro loans	199,757	-	-	-	199,757
Others	39,529	-	-	-	39,529
Investment securities available for sale	-	216,323	-	-	216,323
Investment securities held to maturity	-	-	-	28,986	28,986
Investments in leases	9,681	-	-	-	9,681
Other financial assets:					
- Other financial receivables	4,239	-	-	-	4,239
TOTAL FINANCIAL ASSETS	**1,469,611**	**216,323**	**-**	**28,986**	**1,990,345**
NON-FINANCIAL ASSETS					**277,436**
TOTAL ASSETS					**2,267,781**

38. Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2009:

In thousands of GEL	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Held to maturity**	**Total**
ASSETS					
Cash and cash equivalents	-	-	-	-	332,848
Due from other banks	37,249	-	-	-	37,249
Loans and advances to customers:					
Corporate loans	457,264	-	-	-	457,264
Consumer loans	183,452	-	-	-	183,452
Mortgage loans	166,512	-	-	-	166,512
Small and Micro loans	147,389	-	-	-	147,389
Others	33,811	-	-	-	33,811
Investment securities available for sale	-	3,619	-	-	3,619
Investment securities held to maturity	-	-	-	115,496	115,496
Investments in leases	14,090	-	-	-	14,090
Other financial assets:					
- Other financial receivables	6,927	-	-	-	6,927
- Corporate shares	-	-	82	-	82
TOTAL FINANCIAL ASSETS	**1,046,694**	**3,619**	**82**	**115,496**	**1,498,739**
NON-FINANCIAL ASSETS					**239,281**
TOTAL ASSETS					**1,738,020**

As at 31 December 2010 and 2009, all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

39 Related Party Transactions

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

At 31 December 2010, the outstanding balances with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)	15,528	1,135	4,303
Impairment provisions for loans and advances to customers	(1,114)	(83)	(554)
Other borrowed funds	96,176	-	-
Customer accounts (contractual interest rate: 0 - 13 %)	4,853	3,990	226
Subordinated debt (contractual interest rate: 5 - 11.3 %)	73,101	-	-

39 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2010 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Interest income	548	127	201
Interest expense	468	247	9
Provision for loan impairment	2,397	44	40
Gains less losses from trading in foreign currencies	49	4	138
Fee and commission income	3	-	315
Administrative and other operating expenses	1,995	3,565	-

At 31 December 2010, other rights and obligations with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Guarantees issued by the Group at the year end	-	-	2,257

Aggregate amounts of loans advanced to and repaid by related parties during 2010 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Amounts advanced to related parties during the year (including accrual of interest)	13,857	956	11,893
Amounts repaid by related parties during the year	(12,134)	(1,315)	(7,720)

At 31 December 2009, the outstanding balances with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)	35,715	1,502	5,767
Impairment provisions for loans and advances to customers	(20,931)	(41)	(157)
Other borrowed funds	66,678	-	-
Customer accounts (contractual interest rate: 0 - 13 %)	5,671	2,799	262
Subordinated debt (contractual interest rate: 5 - 11.3 %)	69,375	-	-

39 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2009 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Interest income	3,695	202	112
Interest expense	15,089	220	8
Provision for loan impairment	17,537	11	43
Gains less losses from trading in foreign currencies	(18)	6	301
Fee and commission income	7	5	40
Administrative and other operating expenses	1,773	4,665	-
Charity contributions	-	-	3,502

At 31 December 2009, other rights and obligations with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Guarantees issued by the Group at the year end	-	-	198
Other commitments	89	95	-

Aggregate amounts of loans advanced to and repaid by related parties during 2009 were:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Amounts advanced to related parties during the year (including accrual of interest)	4,530	197	5,727
Amounts repaid by related parties during the year	(2,344)	(391)	-

During 2009 the Group has written off GEL 20,772 thousand of loans and advances to significant shareholders.

Key management compensation is presented below:

	2010		2009	
In thousands of GEL	Expense	Accrued liability	Expense	Accrued liability
Salaries	5,561	4,935	4,330	1,880
Equity-settled share-based compensation	-	--	275	--
Total	**5,561**	**4,935**	**4,605**	**1,880**