

TBC BANK GROUP

**International Financial Reporting Standards
Consolidated Condensed Interim Financial
Information (Unaudited)**

30 June 2011

CONTENTS

REVIEW REPORT

UNAUDITED CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION

Unaudited Consolidated Condensed Interim Statement of Financial Position	1
Unaudited Consolidated Condensed Interim Statement of Comprehensive Income.....	2
Unaudited Consolidated Condensed Interim Statement of Changes in Equity	4
Unaudited Consolidated Condensed Interim Statement of Cash Flows.....	5

Notes to the Unaudited Consolidated Condensed Interim Financial Information

1	Introduction.....	6
2	Summary of Significant Accounting Policies.....	7
3	Critical Accounting Estimates, and Judgements in Applying Accounting Policies	7
4	New Accounting Pronouncements.....	9
5	Cash and Cash Equivalents	10
6	Due from Other Banks	10
7	Loans and Advances to Customers.....	10
8	Premises and Equipment.....	16
9	Goodwill.....	16
10	Disposal Group Held for Sale	17
11	Due to Other Banks	18
12	Customer Accounts	18
13	Other Borrowed Funds	19
14	Provisions for Liabilities, Charges and Credit Related Commitments.....	20
15	Share Capital.....	20
16	Share Based Payments.....	20
17	Earnings per Share.....	21
18	Segment Information	22
19	Interest Income and Expense	25
20	Fee and Commission Income and Expense	25
21	Other Operating Income	26
22	Administrative and Other Operating Expenses.....	26
23	Income Taxes	27
24	Contingencies and Commitments.....	27
25	Financial Risk Management	28
26	Management of Capital.....	35
27	Related Party Transactions	36
28	Business Combinations	38



Report on Review of Interim Financial Statements

To the Shareholders and Management of TBC Bank Group:

Introduction

We have reviewed the accompanying consolidated interim statement of financial position of JSC TBC Bank (the "Bank") and its subsidiaries (together the "Group") as at 30 June 2011 and the related consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this consolidated condensed interim financial information in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information does not present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2011 and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34.

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

21 October 2011
Tbilisi, Georgia

TBC Bank Group
Consolidated Condensed Interim Statement of Financial Position

<i>In thousands of GEL</i>	Note	30 June 2011 (Unaudited)	31 December 2010 (Audited)
ASSETS			
Cash and cash equivalents	5	223,553	275,425
Due from other banks	6	233,031	74,736
Loans and advances to customers	7	1,708,972	1,380,955
Investment securities available for sale		260,420	216,323
Current income tax prepayment		1,081	2,500
Investment securities held to maturity		28,951	28,986
Other financial assets		7,119	4,239
Investments in finance leases		13,411	9,681
Other assets		100,861	94,828
Premises and equipment	8	150,160	144,429
Intangible assets		4,243	3,560
Investment properties		24,603	27,742
Goodwill	9	2,031	1,262
Assets of disposal group classified as held for sale	10	3,536	3,115
TOTAL ASSETS		2,761,972	2,267,781
LIABILITIES			
Due to other banks	11	127,092	47,762
Customer accounts	12	1,619,637	1,365,352
Deferred income tax liability		15,670	7,294
Provisions for liabilities, charges and credit related commitments	14	8,169	6,881
Other financial liabilities		5,599	3,932
Other liabilities		20,779	19,681
Other borrowed funds	13	403,947	280,906
Subordinated debt		145,555	158,401
Liabilities of disposal group classified as held for sale	10	303	300
TOTAL LIABILITIES		2,346,751	1,890,509
EQUITY			
Share capital	15	15,113	15,113
Share premium		201,723	201,723
Retained earnings		158,720	123,423
Other reserves		31,141	31,813
Net assets attributable to the Bank's equity holders		406,697	372,072
Non-controlling interest		8,524	5,200
TOTAL EQUITY		415,221	377,272
TOTAL LIABILITIES AND EQUITY		2,761,972	2,267,781

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


 Vakhtang Butskhrikidze
 Chief Executive Officer


 Giorgi Shagidze
 Chief Financial Officer

The notes set out on pages 6 to 39 form an integral part of this unaudited consolidated condensed interim financial information.

TBC Bank Group
Consolidated Condensed Interim Statement of Comprehensive Income
(Unaudited – see the Review Report)

<i>In thousands of GEL</i>	Notes	30 June 2011 (Unaudited)	30 June 2010 (Unaudited)
Interest income	19	160,724	132,919
Interest expense	19	(64,135)	(53,143)
Net interest income		96,589	79,776
Provision for loan impairment	7	(3,919)	(24,901)
Net interest income after provision for loan impairment		92,670	54,875
Fee and commission income	20	18,559	14,137
Fee and commission expense	20	(7,160)	(4,964)
Gains less losses from trading in foreign currencies		17,446	11,018
Foreign exchange translation (losses less gains)/gains less losses		(6,605)	(1,284)
Impairment of investment securities available for sale		-	(55)
(Provision for) / recovery of liabilities, charges and credit related commitments		(1,288)	646
Recovery of impairment of investments in finance lease		287	177
(Provision for) / recovery of impairment of other financial assets		(641)	877
Other operating income	21	4,465	5,542
Staff costs		(34,349)	(24,339)
Administrative and other operating expenses	22	(26,022)	(24,664)
Profit before tax from continuing operations		57,362	31,966
Income tax expense	23	(8,443)	(2,745)
Profit for the period from continuing operations		48,919	29,221
Discontinued operations			
Loss for the period from discontinued operations	10	(1,078)	(815)
Profit for the period		47,841	28,406
Other comprehensive income:			
Revaluation of available-for-sale investments		167	(181)
Exchange differences on translation to presentation currency		(839)	2,390
Other comprehensive income for the period		(672)	2,209
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		47,169	30,615

TBC Bank Group
Consolidated Condensed Interim Statement of Comprehensive Income (Continued)
(Unaudited – see the Review Report)

Profit is attributable to:			
- Owners of the Bank		47,642	28,298
- Non-controlling interest		199	108
<hr/>			
Profit for the period		47,841	28,406
<hr/>			
Total comprehensive income is attributable to:			
- Owners of the Bank		46,970	30,507
- Non-controlling interest		199	108
<hr/>			
Total comprehensive income for the period		47,169	30,615
<hr/>			
Earnings per share for profit from continuing operations attributable to the owners of the Group:			
- Basic earnings per share	17	322.4	194.1
- Diluted earnings per share	17	320.0	192.6
Earnings per share for profit attributable to the owners of the Group:			
- Basic earnings per share	17	315.2	188.7
- Diluted earnings per share	17	313.0	187.2

TBC Bank Group
Consolidated Condensed Interim Statement of Changes in Equity
(Unaudited – see the Review Report)

	Notes	Attributable to equity holders of the Bank				Non-controlling interest	Total equity	
		Share capital	Share premium	Other reserves	Retained earnings			
<i>In thousands of GEL</i>								
Balance at 1 January 2010		15,000	201,723	32,806	71,920	321,449	5,294	326,743
Profit for the six months ended 30 June 2010		-	-	-	28,298	28,298	108	28,406
Other comprehensive income for the six months ended 30 June 2010		-	-	2,209	-	2,209	-	2,209
Balance at 30 June 2010 (Unaudited)		15,000	201,723	35,015	100,218	351,956	5,402	357,358
Balance at 1 January 2011		15,113	201,723	31,813	123,423	372,072	5,200	377,272
Profit for the six months ended 30 June 2011		-	-	-	47,642	47,642	199	47,841
Other comprehensive income for the six months ended 30 June 2011		-	-	(672)	-	(672)	-	(672)
Dividends paid		-	-	-	(12,345)	(12,345)	-	(12,345)
Business combination	28	-	-	-	-	-	3,125	3,125
Balance at 30 June 2011 (Unaudited)		15,113	201,723	31,141	158,720	406,697	8,524	415,221

TBC Bank Group
Consolidated Condensed Interim Statement of Cash Flows
(Unaudited – see the Review Report)

<i>In thousands of GEL</i>	Note	30 June 2011 (Unaudited)	30 June 2010 (Unaudited)
Cash flows from operating activities			
Interest received		158,300	107,466
Interest paid		(63,538)	(52,503)
Fees and commissions received		18,559	14,272
Fees and commissions paid		(7,160)	(5,177)
Income received from trading in foreign currencies		17,446	11,018
Other operating income received		4,760	5,810
Staff costs paid		(34,960)	(24,740)
Administrative and other operating expenses paid		(20,477)	(17,791)
Income tax (paid) / refunded		1,395	(570)
Cash flows from operating activities before changes in operating assets and liabilities		74,325	37,785
Changes in operating assets and liabilities			
Net (increase) in due from other banks		(158,293)	(46,653)
Net (increase) in loans and advances to customers		(334,095)	(142,973)
Net (increase) / decrease in investment in finance lease		(2,046)	537
Net (increase) in other financial assets		(2,885)	(2,369)
Net decrease / (increase) in other assets		3,630	(14,616)
Net increase in due to other banks		74,738	15,582
Net increase in customer accounts		294,009	115,590
Net increase / (decrease) in other financial liabilities		496	(360)
Net increase in other liabilities		1,779	3,823
Net cash used in operating activities		(48,342)	(33,654)
Cash flows from investing activities			
Acquisition of investment securities available for sale		(396,972)	(191,657)
Proceeds from redemption at maturity of investment securities available for sale		357,403	63,921
Acquisition of investment securities held to maturity		-	(9,973)
Proceeds from redemption of investment securities held to maturity		-	115,496
Acquisition of premises, equipment and intangible assets		(4,136)	(4,657)
Inflow of cash and cash equivalents on acquisition	28	150	-
Net cash used in investing activities		(43,555)	(26,870)
Cash flows from financing activities			
Proceeds from other borrowed funds		180,382	27,463
Redemption of other borrowed funds		(117,199)	-
Redemption of subordinated debt		(10,559)	-
Dividends paid		(12,345)	-
Net cash from financing activities		40,279	27,463
Effect of exchange rate changes on cash and cash equivalents		(254)	(453)
Net decrease in cash and cash equivalents		(51,872)	(33,514)
Cash and cash equivalents at the beginning of the period	5	275,425	332,848
Cash and cash equivalents at the end of the period	5	223,553	299,334

1 Introduction

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” for the six months ended 30 June 2011 for TBC Bank (the “Bank”) and its subsidiaries (together referred to as the “Group” or “TBC Bank Group”).

This consolidated condensed interim financial information has been reviewed, not audited.

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 year 2009 the Group issued new shares, since then the Group does not have an ultimate controlling party. As at 30 June 2011 and 31 December 2010, the shareholder structure by ownership interest is as following:

Shareholders	30 June 2011 Ownership interest,%	31 December 2010 Ownership interest,%
International Finance Corporation	20%	20%
European Bank for Reconstruction and Development	20%	20%
TBC Holdings LTD	21%	21%
Deutsche Investitions und Entwicklungsgesellschaft MBH	11%	11%
Liquid Crystal International N.V. LLC	7%	7%
Individuals	8%	8%
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 branches (31 December 2010: 13) and 32 service centres (31 December 2010: 30) within Georgia. At 30 June 2011, the Group had 2,412 employees (31 December 2010: 2,291).

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 Bank is the Group’s main operating unit and accounts for most of the Group’s activities.

The consolidated financial statements include the following principal subsidiaries:

Subsidiary	30 June 2011 Ownership / voting,%	31 December 2010 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%	100%	Georgia	2010	Real Estate Management
TBC Pay LLC	100%	100%	Georgia	2009	Processing
TBC Invest LLC	100%	-	Israel	2011	PR and marketing
Bank Constanta JSC Banking System	80%	-	Georgia	2011	Financial Institution
Service Company LLC	100.00%	100.00%	Georgia	2009	Service

1 Introduction (Continued)

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 of Significant Accounting Policies

Basis of preparation. This consolidated condensed interim financial information has been prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

Except as described below, the same accounting policies and methods of computation were followed in the preparation of this consolidated condensed interim financial information as compared with the annual consolidated financial statements for the year ended 31 December 2010. Certain new standards, interpretations and amendments to the existing standards, as disclosed in the consolidated financial statements for the year ended 31 December 2010, became effective for the Group from 1 January 2011. These have not significantly affected the consolidated condensed interim financial information of the Group.

Interim period tax measurement. Interim period income tax expense is accrued using the effective tax rate that would be applicable to expected total annual earnings, that is, the estimated weighted average annual effective income tax rate applied to the pre-tax income of the interim period.

Foreign currency translation. At 30 June 2011 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.6665 (31 December 2010: USD 1 = GEL 1.7728); EUR 1 = GEL 2.4054 (31 December 2010: EUR 1 = GEL 2.3500).

Earnings per share. Earnings per share is determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting period.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Reclassification of available for sale securities. In the consolidated financial statements for the year ended 31 December 2010 the Group incorrectly showed reclassification of investments held to maturity of GEL 115,496 thousand to the available for sale category. This incorrect disclosure did not have any material consequences either in the statement of comprehensive income or statement of financial position. All of these securities were redeemed at maturity prior to 31 December 2010. In the statement of cash flows for the 6 months ended 30 June 2010 the redemption is classified as Proceeds from Redemption of Investment Securities Held to Maturity of GEL 115,496 thousand.

The third statement of financial position. The third statement of financial position as of 1 January 2010 is not presented in these consolidated condensed interim financial information. The requirement to present the additional opening statement of financial position, when the entity has made a restatement or reclassification, extends to the information in the related notes. Management considered materiality and concluded that the omission of the statement of financial position as of 1 January 2010 and the notes to the additional opening statement of financial position is not material.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

Estimates and judgements that have the most significant effect on the amounts recognised in the interim financial information are:

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

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale.

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 statement of comprehensive income, 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 7,917 thousand (31 December 2010: GEL 8,313 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. 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 5,376 thousand (31 December 2010: GEL 4,272 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. As at 30 June 2011 the entity had investments in finance lease of GEL 13,411 thousand (31 December 2010: GEL 9,681 thousand).

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. At 30 June 2010, investment properties comprised real estate assets located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 37,100 (31 December 2010: GEL 41,914 thousand).

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 24.

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 30 June 2011 and 31 December 2010, there were no loans and advances at other than market conditions. Terms and conditions of related party balances are disclosed in Note 27.

Goodwill. Recoverable amount of goodwill was estimated based on value in use calculation. Refer to Note 9.

Purchase price allocation. The allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values resulted in changes in the carrying values of tangible and intangible assets of the acquired entity. As part of the accounting for business combinations it is also

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

necessary to perform a purchase price allocation exercise to identify appropriate categories of intangible assets that have been purchased. Such exercise involves management judgement with regard to the types of assets identified and the useful economic lives applied with regard to amortisation rates. The amounts recognised are calculated by reference to management forecasts and assumed discount rates, obsolescence curves and attrition rates. Refer to Note 28. This exercise may result in the recognition of goodwill, which is not deductible for tax purposes. Goodwill consists of the excess of purchase price over the fair value of the acquired assets and represents the estimated economic value attributable to future operations.

4 New Accounting Pronouncements

Since the Group published its last annual financial statements, certain new standards and interpretations have been issued that are mandatory for the Group's annual accounting periods beginning on or after 1 January 2012 or later and which the Group has not early adopted:

IFRS 10, Consolidated financial statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is considering the implications of this standard on its consolidated condensed financial information.

IFRS 11, Joint arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is considering the implications of the amended standard on its consolidated condensed financial information.

IFRS 12, Disclosure of interest in other entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is considering the implications of the amended standard on its consolidated condensed financial information.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is considering the implications of the amended standard on its consolidated condensed financial information.

Amendment to IAS 1, Presentation of financial statements (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012). The amendment requires the entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendment also changes the title for the statement of comprehensive income to 'statement of profit or loss and other comprehensive income'. The Group is currently assessing the impact of the amended standard on disclosures in its consolidated condensed financial information.

4 New Accounting Pronouncements (Continued)

Amendment to IAS 19, Employee benefits (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits. The amendment also changes disclosures for all employee benefits. The Group does not expect the amendments to have any material effect on its consolidated condensed financial information.

The Group has also not early adopted any of the new standards and interpretations disclosed in the 'New Accounting Pronouncements' note in its last annual financial statements and effective for its annual periods beginning on or after 1 January 2012.

5 Cash and Cash Equivalents

<i>In thousands of GEL</i>	30 June 2011	31 December 2010
Cash on hand	80,920	95,138
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	24,540	22,163
Correspondent accounts and overnight placements with other banks	28,341	123,516
Placements with other banks with original maturities of less than three months	89,752	34,608
Total cash and cash equivalents	223,553	275,425

94% of correspondent accounts and overnight placements with other banks are placed with OECD banking institutions (31 December 2010: 97%).

40% of placements with other banks with original maturities of less than three months are placed with a single OECD banking institution. The remaining 60% are placed with top ten Georgian banks (31 December 2010: 100%).

6 Due from Other Banks

<i>In thousands of GEL</i>	30 June 2011	31 December 2010
Mandatory cash balances with the National Bank of Georgia	228,855	58,576
Short-term placements with other banks with original maturities of more than three months	4,176	16,160
Total due from other banks	233,031	74,736

Amounts due from other banks are not collateralised.

7 Loans and Advances to Customers

<i>In thousands of GEL</i>	30 June 2011	31 December 2010
Corporate loans	918,463	811,559
Consumer loans	358,319	284,310
Mortgage loans	332,037	260,064
Small and micro loans	213,227	152,946
Others	46,046	39,530
Less: Provision for loan impairment	(159,120)	(167,454)
Total loans and advances to customers	1,708,972	1,380,955

In the consolidated interim financial information management retrospectively changed classification of certain loans and advances to customers.

7 Loans and Advances to Customers (Continued)

Namely GEL 63,082 thousand was now classified as corporate loans. Management believes that the revised classification forms a more prudent basis for analyses of the accounts.

Movements in the provision for loan impairment during the six months ended 30 June 2011 are as follows:

<i>In thousands of GEL</i>	Corporate loans	Consumer loans	Mortgage loans	Small and Micro loans	Total
Provision for loan impairment at 1 January 2011	122,944	17,736	16,294	10,480	167,454
Provision for / (recovery of) impairment during the period	2,547	5,934	(1,261)	(3,301)	3,919
Amounts written off during the period as uncollectible	(13,195)	(5,502)	(3,489)	(1,216)	(23,402)
Recovery of amounts previously written off as uncollectible	2,682	4,978	2,431	1,058	11,149
Provision for loan impairment at 30 June 2011	114,978	23,146	13,975	7,021	159,120

Movements in the provision for loan impairment during six months ended 30 June 2010 are as follows:

<i>In thousands of GEL</i>	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 / (recovery of) impairment during the period	18,247	2,069	4,734	(251)	102	24,901
Amounts written off during the period as uncollectible	(21,463)	(13,787)	(2,603)	(1,100)	-	(38,953)
Recovery of amounts previously written off as uncollectible	5,824	3,810	1,149	1,369	-	12,152
Provision for loan impairment at 30 June 2010	149,024	17,273	7,191	5,357	204	179,049

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

<i>In thousands of GEL</i>	30 June 2011		31 December 2010	
	Amount	%	Amount	%
Individuals	690,211	37%	544,374	35%
Trade and service	237,196	13%	147,794	10%
Real estate	158,983	9%	119,280	8%
Oil and gas	122,729	7%	118,339	8%
Consumer goods	99,028	5%	95,555	6%
Communication	97,037	5%	53,635	3%
Construction	93,544	5%	99,769	6%
Energy	83,238	4%	106,630	7%
Food industry	80,854	4%	69,627	4%
Gold pawn loans	46,046	2%	39,529	3%
Mining	34,588	2%	28,395	2%
Transport and communication	33,996	2%	24,587	2%
Manufacturing	20,323	1%	23,827	1%
Agricultural	15,641	1%	41,287	3%
Other	54,678	3%	35,781	2%
Total loans and advances to customers (before impairment)	1,868,092	100%	1,548,409	100%

7 Loans and Advances to Customers (Continued)

Information about collateral at 30 June 2011 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Others	Total
<i>In thousands of GEL</i>						
Unsecured loans	125,325	173,868	7,778	19,950	-	326,921
Loans collateralised by:						
- real estate	528,641	69,124	322,912	184,939	-	1,105,616
- inventory and equipment	162,075	92,667	584	626	-	255,952
- jewellery	-	-	-	-	46,046	46,046
- cash deposits	58,368	22,542	627	7,650	-	89,187
- other assets	44,054	118	136	62	-	44,370
Total loans and advances to customers	918,463	358,319	332,037	213,227	46,046	1,868,092

Information about collateral at 31 December 2010 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Others	Total
<i>In thousands of GEL</i>						
Unsecured loans	108,777	111,164	5,333	1,862	-	227,136
Loans collateralised by:						
- real estate	494,844	56,052	250,780	143,897	-	945,573
- inventory and equipment	133,563	88,334	987	2,471	-	225,355
- jewellery	-	-	-	-	39,530	39,530
- cash deposits	33,817	25,135	79	4,261	-	63,292
- other assets	40,558	3,625	2,885	455	-	47,523
Total loans and advances to customers	811,559	284,310	260,064	152,946	39,530	1,548,409

7 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 30 June 2011 is as follows:

<i>In thousands of GEL</i>	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Others	Total
<i>Current and not impaired</i>						
- Borrowers with credit history over two years – at original terms	157,478	70,796	137,083	59,253	-	424,610
- Borrowers with credit history over two years – renegotiated in 2011	22,917	4,941	6,018	5,607	-	39,483
- new borrowers – at original terms	195,903	110,678	116,774	112,824	46,046	582,225
- new borrowers – renegotiated in 2011	4,964	1,249	37	406	-	6,656
Total current and not impaired	381,262	187,664	259,912	178,090	46,046	1,052,974
<i>Past due but not impaired</i>						
- less than 30 days overdue	1,147	2,743	2,420	1,864	-	8,174
- 30 to 90 days overdue	3,526	1,844	2,049	861	-	8,280
- 90 to 180 days overdue	2,217	1,665	1,494	1,747	-	7,123
- 180 – 360 days overdue	-	808	594	657	-	2,059
Total past due but not impaired	6,890	7,060	6,557	5,129	-	25,636
<i>Loans individually determined to be impaired (gross)</i>						
- less than 30 days overdue	179,111	80	45	80	-	179,316
- 30 to 90 days overdue	10,682	68	64	23	-	10,837
- 90 to 180 days overdue	893	132	73	32	-	1,130
- 180 – 360 days overdue	618	164	31	-	-	813
- over 360 days overdue	289	521	-	-	-	810
Total individually impaired loans (gross)	191,593	965	213	135	-	192,906
Gross carrying value of other loans	338,718	162,630	65,355	29,873	-	596,576
Less impairment provisions	(114,978)	(23,146)	(13,975)	(7,021)	-	(159,120)
Total loans and advances to customers	803,485	335,173	318,062	206,206	46,046	1,708,972

For the purposes of the above disclosure, loans that are current as of the balance sheet data are classified into the “current and not impaired” category, loans that are overdue but have sufficient collateral amount are classified into that “past due and impaired” category. Loans individually determined to be impaired include all loans that were individually assessed for impairment and due to overdue status, financial position of a borrower and realisability of related collateral were considered as impaired.

7 Loans and Advances to Customers (Continued)

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

<i>In thousands of GEL</i>	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Others	Total
<i>Current and not impaired</i>						
- Borrowers with credit history over two years – at original terms	164,096	55,570	123,200	66,405	-	409,271
- Borrowers with credit history over two years – renegotiated in 2011	27,837	5,668	7,239	9,600	-	50,344
- new borrowers – at original terms	75,096	61,566	61,655	50,002	39,530	287,849
- new borrowers – renegotiated in 2011	2,732	862	35	434	-	4,063
Total current and not impaired	269,761	123,666	192,129	126,441	39,530	751,527
<i>Past due but not impaired</i>						
- 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
<i>Loans individually determined to be impaired (gross)</i>						
- less than 30 days overdue	193,694	-	-	-	-	193,694
- 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
- over 360 days overdue	-	-	-	-	-	-
Total individually impaired loans (gross)	204,403	-	-	-	-	204,403
Gross carrying value of other loans	334,802	155,444	61,090	21,955	-	573,291
Less impairment provisions	(114,013)	(18,817)	(18,354)	(16,270)	-	(167,454)
Total loans and advances to customers	697,546	265,493	241,710	136,676	39,530	1,380,955

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

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.

7 Loans and Advances to Customers (Continued)

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 30 June 2011 was as follows:

<i>In thousands of GEL</i>	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Total
<i>Fair value of collateral - loan past due but not impaired</i>					
- real estate	6,304	3,387	6,596	4,635	20,922
- inventory and equipment	586	3,627	-	664	4,877
- jewellery	-	-	-	253	253
<i>Fair value of collateral - individually impaired loans</i>					
- real estate	87,926	126	235	5	88,292
- inventory and equipment	66,805	-	-	-	66,805
- cash deposits	3,135	-	-	-	3,135
- other assets	5,480	-	-	-	5,480
Total	170,236	7,140	6,831	5,557	189,764

The 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:

<i>In thousands of GEL</i>	Corporate loans	Consumer loans	Mortgage loans	Small and micro loans	Total
<i>Fair value of collateral - loan past due but not impaired</i>					
- real estate	2,593	2,520	6,846	4,285	16,244
- inventory and equipment	-	2,680	-	-	2,680
- cash deposits	-	1	-	266	267
<i>Fair value of collateral - individually impaired loans</i>					
- 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

The Group's internal appraiser performed physical inspection of pledged real estate and estimated the fair value of real estate at the reporting 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.

8 Premises and Equipment

In May 2011, the Group acquired new premises and equipment through business combination at a fair value of GEL 7,299 thousand. Additionally the Group acquired new property amounting to GEL 5,831 thousand and disposed of property amounting to GEL 792 thousand during the six month period ended 30 June 2011.

9 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

<i>In thousands of GEL</i>	30 June 2011	31 December 2010
Carrying amount at 1 January	1,262	1,958
Transfer to disposal group held for sale	-	(696)
Acquisition of subsidiary	769	
Carrying amount at 30 June / 31 December	2,031	1,262
Gross book value	2,572	1,803
Accumulated impairment losses	(541)	(541)
Carrying amount at 30 June / 31 December	2,031	1,262

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:

<i>In thousands of GEL</i>	30 June 2011	31 December 2010
LLC TBC Kredit	1,262	1,262
Constanta Bank JSC	769	-
Total carrying amount of goodwill	2,031	1,262

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 discount rate applied to the discounted cash flows of LLC TBC Kredit had been 10% higher than Management's estimates, the Group would need to reduce the carrying value of goodwill by GEL 843 thousand. 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 3,372 thousand. The CGU's carrying amount would equal to value in use at a discount rate of 13.81% p.a.

If the discount rate applied to the discounted cash flows of JSC Constanta Bank 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 JSC Constanta Bank CGU exceeds its carrying amount by GEL 6,655 thousand. The CGU's carrying amount would equal to value in use at a discount rate of 17.33% p.a.

10 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 December 2011.

Major classes of assets of disposal groups held for sale are as follows:

<i>In thousands of GEL</i>	30 June 2010	31 December 2010
<i>Assets of a disposal group held for sale:</i>		
Current income tax prepayment	-	53
Deferred income tax asset	121	136
Other assets	801	234
Intangible assets	2,249	2,216
Premises and equipment	365	476
Total assets of disposal groups held for sale	3,536	3,115

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

<i>In thousands of GEL</i>	30 June 2010	31 December 2010
Other liabilities	303	300
Total liabilities directly associated with disposal groups held for sale	303	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:

<i>In thousands of GEL</i>	30 June 2011	30 June 2010
Revenue	294	201
Expenses	(1,346)	(953)
Loss before tax of discontinued operations	(1,052)	(752)
Income tax relating to profit before tax of discontinued operations	(25)	(63)
Loss for the period from discontinued operations	(1,077)	(815)

10 Disposal Groups Held for Sale (Continued)

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

<i>In thousands of GEL</i>	30 June 2011	30 June 2010
Operating cash flows	(577)	(772)
Investing cash flows	(78)	(234)
Total cash flows	(655)	(1,006)

11 Due to Other Banks

<i>In thousands of GEL</i>	30 June 2011	31 December 2010
Term placements of banks and financial institutions	116,498	43,431
Loans from banks and financial institutions	2,553	761
Correspondent accounts and overnight placements of other banks	8,041	3,570
Total due to other banks	127,092	47,762

12 Customer Accounts

<i>In thousands of GEL</i>	30 June 2011	31 December 2010
State and public organisations		
- Current/settlement accounts	77,146	44,287
- Term deposits	16,329	5,940
Other legal entities		
- Current/settlement accounts	401,395	359,854
- Term deposits	173,761	103,288
Individuals		
- Current/demand accounts	364,386	350,228
- Term deposits	586,620	501,755
Total customer accounts	1,619,637	1,365,352

State and public organisations include government owned profit orientated businesses.

12 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of GEL</i>	30 June 2011		31 December 2010	
	Amount	%	Amount	%
Individuals	951,006	59%	851,983	62%
Trade and services	332,858	21%	263,853	19%
Construction	35,124	2%	38,555	3%
Government	42,281	3%	22,115	2%
Energy	15,388	1%	12,934	1%
Transport and communication	22,663	1%	11,245	1%
Mining and natural resource processing	3,840	0%	4,709	0%
Agriculture	1,974	0%	602	0%
Other	214,503	13%	159,356	12%
Total customer accounts	1,619,637	100%	1,365,352	100%

13 Other Borrowed Funds

At 30 June 2011, other borrowed funds comprised the following:

<i>In thousands of GEL</i>	Outstanding amount in original currency			Outstanding amount in GEL
	GEL	USD	EUR	
International financial institutions	-	102,550	1,550	174,627
Local banks and financial institutions	10,000	-	-	10,000
Foreign banks and financial institutions	11,662	121,074	200	213,914
Other financial institutions	-	891	1,630	5,406
Total	21,662	224,515	3,380	403,947

At 31 December 2010, other borrowed funds comprised the following:

<i>In thousands of GEL</i>	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

14 Provisions for Liabilities, Charges and Credit Related Commitments

Movements in provisions for liabilities and charges are as follows:

<i>In thousands of GEL</i>	Credit related commitments	Other	Total
Carrying amount at 1 January 2010	3,789	1,500	5,289
Additions recorded in profit or loss	(641)	-	(641)
Carrying amount at 1 January 2011	3,148	1,500	4,648
Additions recorded in profit or loss	1,288	-	1,288
Carrying amount at 30 June 2011	7,069	1,100	8,169

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 30 June 2011 is expected to be utilised by September 2011.

15 Share Capital

<i>In thousands of GEL except for number of shares</i>	Number of outstanding shares	Ordinary shares	Share premium	Total
At 1 January 2010	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
At 30 June 2011	151,131	15,113	201,723	216,836

All ordinary shares have a nominal value of GEL 100 per share (31 December 2010: 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.

16 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 over the vesting period in operating expenses within staff costs.

In May 2011, the board of shareholders and the board of supervisors of the Group resolved to award employees 3,300 options to purchase the Bank's ordinary shares. Each share option converts into one ordinary share of JSC TBC Bank at an exercise price of the Group's book value per share outstanding as at the previous reporting year end.

After exercise the shares carry rights to dividends but do not carry voting rights and are restricted to sell before 2014. However, the right to sell the shares will be granted and they will become voting shares before 2014 if:

- The Bank is listed on a stock exchange.
- There is any other type of qualified sale of the Bank.

16 Share Based Payments (Continued)

Share options are subject to 2 year vesting period. The fair value of the share options as at the grant date was estimated at GEL 2,837 per share option. Management expenses granted share options over the vesting period in operating expenses within staff costs.

<i>In GEL except for number of share options</i>	30 June 2011	30 June 2010
Cumulative number of options granted as at the beginning of the period	-	1,133
Number of options granted during the period	741	-
Cumulative number of options granted as at the end of the period	741	-
Value at grant date per share option (GEL)	2,837	2,420
Expense recognised as staff cost during the period (GEL thousand)	-	-
Number of options outstanding at the beginning of the period	-	1,133
Number of options exercisable at the beginning of the period	-	1,133
Number of options exercisable at the end of the period	579	-
Number of options outstanding at the end of the period	741	1,133

In August 2011 the eligible employees exercised 579 share options.

17 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year.

<i>In thousands of GEL except for number of shares</i>	Note	30 June 2011	30 June 2010
Profit for the period from continuing operations attributable to the owners of the Parent		48,720	29,113
Profit for the period attributable to the owners of the Parent		47,642	28,298
Weighted average number of ordinary shares in issue (thousands)	15	151,131	150,000
Basic earnings per ordinary share from continuing operations attributable to the owners of the parent (expressed in GEL per share)		322.4	194.1
Basic earnings per ordinary share attributable to the owners of the parent (expressed in GEL per share)		315.2	188.7

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Parent by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential ordinary shares during the period:

<i>In thousands of GEL except for number of shares</i>	30 June 2011	30 June 2010
Profit for the period from continuing operations attributable to the owners of the Parent	48,720	29,113
Profit for the period attributable to the owners of the Parent	47,642	28,298
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period (thousands)	152,231	151,131
Diluted earnings per ordinary share from continuing operations attributable to the owners of the parent (expressed in GEL per share)	320.0	192.6
Diluted earnings per ordinary share attributable to the owners of the parent (expressed in GEL per share)	313.0	187.2

18 Segment Information

The chief operating decision maker which is The Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. The operating segments have been determined based on these reports as follows:

- Micro - All customers of Bank Constanta. Individual loan exposure to each customer is less than USD 150,000
- Retail – All retail customers of the Group except all customers of Bank Constanta.
- Corporate – customers as legal entities which have annual revenues of GEL 8 million or more or have been granted a loan of USD 1,500,000 or more. However a few other legal entity customers which have attractive potential for the Bank might also be assigned status of corporate customer.
- SME – customers as the legal entity customers that are not included either in the Micro or Corporate segment. Vast Majority of such customers have been granted loans between USD 1,500,000 and USD 150,000 or have annual revenue of less than GEL 8 million.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax. This measurement basis excludes the effects of certain expenses from the operating segments as disclosed in the relevant reconciliation below. Other information provided to The Board of Directors is measured in a manner consistent with that in these financial statements, except for the items presented in the relevant reconciliation below. The reconciling items are managed at the Group level and are not allocated to the segments for management and/or reporting purposes.

Segment information for the reportable segments of the Group for the six month periods ended 30 June 2011 and 2010 is set out below:

<i>In thousands of GEL</i>	Micro	Retail	Corporate	SME	Total
Six months ended 30 June 2011					
External revenues:					
- Interest income on loans and advances to customers	3,949	71,281	55,980	13,170	144,380
- Fee and commission income	172	10,189	5,686	2,512	18,559
- Gains less losses from trading in foreign currencies	64	3,031	5,310	2,586	10,991
Revenue from external customers	4,185	84,501	66,976	18,268	173,930
Six months ended 30 June 2011					
External Expenses:					
- Interest expense on customer accounts	70	31,706	11,292	1,402	44,470
- Fee and commission expense	25	4,115	479	201	4,820
- Provision for loan impairment	(385)	4,873	2,545	(3,114)	3,919
Expenses from external customers	(290)	40,694	14,316	(1,511)	53,209
Adjusted profit before non-segmental income, administrative and other expense and income tax	4,475	43,807	52,660	19,779	120,721
30 June 2011					
Total gross loans and advances to customers reported	86,365	687,129	918,459	176,139	1,868,092
Total customer accounts reported	7,084	944,763	505,891	161,899	1,619,637
Undrawn credit lines	-	31,611	96,633	8,579	136,823

18 Segment Information (Continued)

<i>In thousands of GELs</i>	Retail	Corporate	SME	Total
Six months ended 30 June 2010				
External revenues:				
- Interest income on loans and advances to customers	57,339	55,456	12,686	125,481
- Fee and commission income	7,568	4,661	1,908	14,137
- Gains less losses from trading in foreign currencies	3,434	4,220	2,737	10,391
Revenue from external customers	68,341	64,337	17,331	150,009
Six months ended 30 June 2010				
External Expenses:				
- Interest expense on customer accounts	30,298	6,644	913	37,855
- Fee and commission expense	3,510	703	198	4,411
- Provision for loan impairment	6,924	18,228	(251)	24,901
Expenses from external customers	40,732	25,575	860	67,167
Adjusted profit before non-segmental income, administrative and other expense and income tax	27,609	38,762	16,471	82,842
31 December 2010				
Total gross loans and advances to customers reported	583,904	811,559	152,946	1,548,409
Total customer accounts reported	851,983	377,085	136,284	1,365,352
Undrawn credit lines	23,898	66,550	8,881	99,329

18 Segment Information (Continued)

A reconciliation of adjusted profit before non-segmental income, administrative and other expenses and income tax is provided as follows:

<i>In thousands of GEL</i>	Six months ended 30 June 2011	Six months ended 30 June 2010
Adjusted profit before non-segmental income, administrative and other expense and income tax	120,721	82,842
<i>Non-segmental interest income</i>	16,344	7,438
<i>Non-segmental interest expense</i>	(19,665)	(15,288)
<i>Non-segmental net fee and commission expense</i>	(2,340)	(553)
<i>Non-segmental gains less losses from trading in foreign currency</i>	6,455	627
Foreign exchange translation (losses less gains)/gains less losses	(6,605)	(1,284)
Impairment of investment securities available for sale	-	(55)
(Provision for) / recovery of liabilities, charges and credit related commitments	(1,288)	646
Recovery of impairment of investments in finance lease	287	177
(Provision for) / recovery of impairment of other financial assets	(641)	877
Other operating income	4,465	5,542
Staff costs	(34,349)	(24,339)
Administrative and other operating expenses	(26,022)	(24,664)
Profit before income tax from continuing operations	57,362	31,966

Reportable segments' assets are reconciled to total assets as follows:

<i>In thousands of GEL</i>	30.Jun.11	31.Dec.10
Total segment assets (loans and advances to customers)	1,708,972	1,380,955
Cash and cash equivalents	223,553	275,425
Due from other banks	233,031	74,736
Investment securities available for sale	260,420	216,323
Current income tax prepayment	1,081	2,500
Investment securities held to maturity	28,951	28,986
Other financial assets	7,119	4,239
Investments in finance leases	13,411	9,681
Other assets	100,861	94,828
Premises and equipment	150,160	144,429
Intangible assets	4,243	3,560
Investment properties	24,603	27,742
Goodwill	2,031	1,262
Assets of disposal group classified as held for sale	3,536	3,115
Total assets per statement of financial position	2,761,972	2,267,781

19 Interest Income and Expense

<i>In thousands of GEL</i>	30 June 2011	30 June 2010
Interest income		
Loans and advances to customers	144,380	125,481
Investment securities available for sale	10,885	3,382
Investment securities held to maturity	1,792	478
Investments in leases	1,408	1,874
Due from other banks	2,114	1,704
Other	145	-
Total interest income	160,724	132,919
Interest expense		
Due to other banks	17,353	14,793
Term deposits of individuals	24,667	23,547
Current/settlement accounts	15,189	11,837
Term deposits of legal entities	4,614	2,471
Term placements of other banks	1,557	492
Correspondent accounts of other banks	40	3
Other	715	-
Total interest expense	64,135	53,143
Net interest income	96,589	79,776

20 Fee and Commission Income and Expense

<i>In thousands of GEL</i>	30 June 2011	30 June 2010
Fee and commission income		
<i>Fee and commission income in respect of financial instruments not at fair value through profit or loss:</i>		
- Plastic card operations	7,754	5,223
- Guarantees issued	3,956	3,283
- Settlement transactions	3,380	2,830
- Cash transactions	1,956	1,776
- Foreign exchange operations	625	496
- Other	888	529
Total fee and commission income	18,559	14,137
Fee and commission expense		
<i>Fee and commission expense in respect of financial instruments not at fair value through profit or loss:</i>		
- Guarantees received	2,725	1,582
- Plastic card operations	2,654	2,229
- Settlement transactions	635	860
- Cash transactions	236	40
- Foreign exchange operations	27	45
- Other	883	208
Total fee and commission expense	7,160	4,964
Net fee and commission income	11,399	9,173

21 Other Operating Income

<i>In thousands of GEL</i>	30 June 2011	30 June 2010
Fee income for temporary retention of repossessed collateral	-	1,887
Revenues from operational leasing	1,386	603
Revenues from sales of electronic payment terminals	1,610	1,126
Administrative fee income from international financial institutions	400	586
Net gain / (loss) on terminated finance lease contracts	224	(144)
Gain on disposal of premises and equipment	477	1,244
Revenues from issuance of letters of credit	275	97
Reimbursement from insurer	4	90
Other	89	53
Total other operating income	4,465	5,542

22 Administrative and Other Operating Expenses

<i>In thousands of GEL</i>	30 June 2011	30 June 2010
Depreciation and amortisation	6,893	7,096
Occupancy and rent	3,878	3,307
Professional services	2,899	2,936
Advertising and marketing services	3,205	2,513
Communications and supply	1,096	1,189
Insurance	619	461
Taxes other than on income	947	750
Transportation and vehicle maintenance	595	506
Stationery and other office expenses	726	470
Security services	618	353
Intangible asset maintenance	439	333
Charity	557	407
Business trip expenses	384	114
Other	3,166	4,229
Total administrative and other operating expenses	26,022	24,664

23 Income Taxes

Interim period income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate applied for the six months ended 30 June 2011 is 15% (the estimated tax rate for the six months ended 30 June 2010 was 15%).

24 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 and Azeri 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 and 30 June 2011 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:

<i>In thousands of GEL</i>	30 June 2011	30 December 2010
Later than 1 year and not later than 5 years	167	667
Later than 5 years	489	492
Total operating lease commitments	656	1,159

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 and 30 June 2011.

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.

24 Contingencies and Commitments (Continued)

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.

Outstanding credit related commitments are as follows:

<i>In thousands of GEL</i>	Note	30 June 2011	31 December 2010
Guarantees issued		231,880	145,877
Undrawn credit lines		136,823	99,329
Letters of credit		31,637	18,377
Less: Provision for credit related commitments	14	(7,069)	(5,781)
Total credit related commitments		393,271	257,802

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 393,271 thousand at 30 June 2011 (31 December 2010: GEL 257,802 thousand).

25 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.

The objectives, policies and processes for managing the financial risks and the methods used to measure the risks applied by the Group during the six months ended 30 June 2011 are consistent with those applied during the year 2010.

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 24.

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;

25 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 equivalents 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 Note 7.

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 exposure. 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:

<i>In thousands of GEL</i>	Georgian Lari	US Dollars	Euros	Other	Total
Financial Assets	603,066	1,643,457	209,162	19,895	2,475,580
Financial Liabilities	454,986	1,559,848	222,103	65,086	2,302,022
Derivatives	169	(71,973)	12,496	60,730	1,422
Net Balance sheet position	148,249	11,636	(444)	15,539	174,980

25 Financial Risk Management (Continued)

The Group's exposure to foreign currency exchange rate risk at 31 December 2010 was as follows:

<i>In thousands of GEL</i>	Georgian Lari	US Dollars	Euros	Other	Total
Financial Assets	561,300	1,214,500	186,400	28,145	1,990,345
Financial Liabilities	467,200	1,187,500	186,900	14,753	1,856,353
Derivatives	400	(700)	-	-	(300)
Net Balance sheet position	94,500	26,300	(500)	13,392	133,692

To assess the Group's currency risk, a Value at Risk (VaR) analysis is performed on a monthly basis at 99.5% Confidence Interval. The holding period is determined to be one month and the look-back period is three years. As at 30 June 2011, VAR amounted to GEL 921 (31 December 2010: GEL 2,118).

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 and economic value impact analysis. 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 and Interest Rate Swaps.

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.

<i>In thousands of GEL</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
30 June 2011					
Total financial assets	552,882	471,488	329,340	1,121,870	2,475,580
Total financial liabilities	908,125	525,372	283,016	585,509	2,302,022
Net interest sensitivity gap at 30 June 2011	(355,243)	(53,884)	46,324	536,361	173,558
31 December 2010					
Total financial assets	639,997	316,693	202,493	831,166	1,990,345
Total financial liabilities	937,664	198,675	259,996	460,022	1,856,353
Net interest sensitivity gap at 31 December 2010	(297,667)	118,018	(57,504)	371,144	133,992

At 30 June 2011, if interest rates at that date had been 200 basis points lower with all other variables held constant, profit for the period would have been GEL 7,784 thousand (31 December 2010: profit for the year GEL 7,090 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities.

25 Financial Risk Management (Continued)

If interest rates had been 200 basis points higher, with all other variables held constant, profit would have been GEL 7,784 thousand (31 December 2010: GEL 7,090 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

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.

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: $\text{Qualified Liquid Assets} + \text{Total Inflow} / \text{Total Outflow}$
- 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 31-60 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 the 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 National Bank 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 a 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 36.05% at 30 June 2011 (31 December 2010: 32.77%).

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

25 Financial Risk Management (Continued)

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 process. 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.

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 30 June 2011 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

<i>In thousands of GEL</i>	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	119,516	2,856	14,483	12,912	3,857	153,624
Customer accounts – individuals	412,892	103,923	351,765	101,741	3,482	973,803
Customer accounts – other	503,883	31,531	42,404	96,315	11,430	685,563
Other financial liabilities	4,863	732	729	-	-	6,324
Other borrowed funds	30,756	10,404	178,618	151,339	51,256	422,372
Subordinated debt	1,838	1,842	30,927	109,692	69,832	214,131
Gross settled forwards	80,546	-	-	-	-	80,546
Financial guarantees	242,869	-	-	-	-	242,869
Other credit related commitments	28,424	-	-	-	-	28,424
Total potential future payments for financial obligations	1,425,587	151,288	618,926	471,999	139,857	2,807,657

The maturity analysis of financial liabilities at 31 December 2010 was as follows:

<i>In thousands of GEL</i>	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	132,224	-	-	-	-	132,224
Other credit related commitments	99,528	-	-	-	-	99,528
Total potential future payments for financial obligations	1,170,541	130,074	425,127	256,849	147,817	2,130,408

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.

25 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 30 June 2011:

<i>In thousands of GEL</i>	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	223,553	-	-	-	-	223,553
Due from other banks	227,273	-	-	171	5,587	233,031
Loans and advances to customers	149,889	119,950	449,657	683,723	305,753	1,708,972
Investment securities available for sale	260,420	-	-	-	-	260,420
Investment securities held to maturity	-	-	10,266	18,685	-	28,951
Finance lease receivables	59	260	1,202	11,890	-	13,411
Other financial assets	6,905	-	-	214	-	7,119
Total financial assets	868,099	120,210	461,125	714,683	311,340	2,475,457
Liabilities						
Due to other banks	117,093	-	9,999	-	-	127,092
Customer accounts	911,485	129,175	376,722	188,152	14,103	1,619,637
Other borrowed funds	30,469	11,429	169,570	142,532	49,947	403,947
Other financial liabilities	4,566	598	435	-	-	5,599
Subordinated debt	1,621	1,656	19,768	69,533	52,977	145,555
Total financial liabilities	1,065,234	142,858	576,494	400,217	117,027	2,301,830
Net liquidity gap at 30 June 2011	(197,135)	(22,648)	(115,369)	314,466	194,313	173,627

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.

25 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2010:

<i>In thousands of GEL</i>	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 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.

26 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:

<i>In thousands of GEL</i>	30 June 2011	31 December 2010
Share capital	216,836	216,836
Retained earnings	147,283	108,940
General loan loss provisions (up to 1.25 % of risk – weighted assets)	28,765	23,776
Less intangible assets	(3,392)	(3,375)
Less Investments into subsidiary companies and capital of other banks	(65,823)	(46,913)
Subordinated debt	86,791	104,099
Total regulatory capital	410,460	403,363

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:

<i>In thousands of GEL</i>	30 June 2011	31 December 2010
Tier 1 capital		
Share capital	216,836	216,836
Retained earnings	158,720	123,423
Less: Goodwill	(2,031)	(1,262)
Non-controlling interest	8,524	5,200
Total tier 1 capital	382,049	344,197
Tier 2 capital		
Revaluation reserves	31,144	31,816
Subordinated debt	86,791	104,099
Total tier 2 capital	117,935	135,915
Total capital	499,984	480,112

The Group and the Bank have complied with all externally imposed capital requirements throughout six month periods ended 30 June 2011 and 2010.

27 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.

At 30 June 2011, the outstanding balances with related parties were as follows:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)	15,323	2,029	5,620
Impairment provisions for loans and advances to customers	(341)	(40)	(272)
Other borrowed funds	173,596	-	-
Customer accounts (contractual interest rate: 0 - 13 %)	8,055	4,552	1,140
Subordinated debt (contractual interest rate: 5 - 11.3 %)	65,396	-	-

Other related parties comprise an associate obtained as a result of restructuring a loan exposure.

The income and expense items with related parties for the six months ended 30 June 2011 were as follows:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel	Other related parties
Interest income	404	119	411
Interest expense	225	168	14
Provision for loan impairment	(773)	(43)	(282)
Gains less losses from trading in foreign currencies	44	-	314
Fee and commission income	14	5	141
Administrative and other operating expenses	995	1,578	-

Provision for loan impairment includes impairment charges incurred on unimpaired related party loans.

At 30 June 2011, other rights and obligations with related parties were as follows:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel	Other related parties
Guarantees issued by the Group at the year end	267	-	2,197

Aggregate amounts of loans advanced to and repaid by related parties during the six months ended 30 June 2011 were:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel	Other related parties
Amounts advanced to related parties during the year (including accrual of interest)	699	909	6,702
Amounts repaid by related parties during the year	(1,011)	(453)	(8,440)

27 Related Party Transactions (Continued)

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

<i>In thousands of GEL</i>	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	-	-

Other related parties comprise an associate obtained as a result of restructuring a loan exposure.

The income and expense items with related parties for the six months ended 30 June 2010 were as follows:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel	Other related parties
Interest income	325	87	109
Interest expense	288	135	5
Provision for loan impairment	(3,119)	(16)	406
Gains less losses from trading in foreign currencies	3	3	54
Fee and commission income	3	2	142
Administrative and other operating expenses	984	1,335	-

Provision for loan impairment includes impairment charges incurred on unimpaired related party loans.

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

<i>In thousands of GEL</i>	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 the six months ended 30 June 2010 were:

<i>In thousands of GEL</i>	Significant shareholders	Key management personnel	Other related parties
Amounts advanced to related parties during the year (including accrual of interest)	12,761	738	4,582
Amounts repaid by related parties during the year	(10,502)	(1,289)	(2,176)

Key management compensation is presented below:

<i>In thousands of GEL</i>	30 June 2011		30 June 2010	
	Expense	Accrued liability	Expense	Accrued liability
Salaries	2,356	4,957	2,319	1,150
Total	2,356	4,957	2,319	1,150

28 Business Combinations

On 13 May 2011 the Group acquired 80% of the share capital of JSC Bank Constanta and obtained control through its ability to cast a majority of votes in the general meeting of shareholders. The acquired subsidiary will increase the Group's penetration of its chosen small and micro lending market and is expected to improve profitability through the economies of scale.

The acquisition-date fair value of the total purchase consideration and its components are as follows:

In thousands of GEL

Cash consideration paid	13,601
Total purchase consideration	13,601

Acquisition related transaction costs were expensed as general and administrative expenses.

The consideration paid by the Group was based on results of an internal appraisal of the acquiree's business taken as a whole. However, in accordance with IFRS 3 "Business Combinations", the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. These two different approaches can lead to differences; and, as set out in the table below, recognition of goodwill. Details of the assets and liabilities acquired and goodwill arising is as follows:

<i>In thousands of GEL</i>	Note	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents		13,751	13,751
Loans and advances to customers		76,106	76,106
Other assets		9,253	9,253
Customer accounts		(3,457)	(3,457)
Amounts owed to credit institutions		(79,117)	(79,117)
Other liabilities		(496)	(496)
Fair value of net assets of subsidiary			16,040
Less: non controlling interest			(3,208)
Fair value of acquired interest in net assets of subsidiary			12,832
Goodwill arising from the acquisition	9		769
Total purchase consideration			13,601
Less: cash and cash equivalents of subsidiary acquired			(13,751)
Inflow of cash and cash equivalents on acquisition			(150)

The non-controlling interest represents share in net assets of the acquiree attributable to owners of non-controlling interest.

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined costs savings expected to arise. The purchase consideration comprises cash and cash equivalents paid of GEL 13,601 thousand.

28 Business Combinations (Continued)

The acquired subsidiary contributed net interest income of GEL 3,949 thousand and profit of GEL 646 thousand to the Group for the period from the date of acquisition to 30 June 2011. If the acquisition had occurred on 1 January 2011, the contribution to the Group's net interest income for the six months ended 30 June 2011 would have been GEL 11,776 thousand, and to profit would have been GEL 1,173 thousand.