JSC Bank of Georgia and Subsidiaries
Unaudited Interim Condensed Consolidated Financial Statements

30 June 2010

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of JSC Bank of Georgia

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of JSC Bank of Georgia and its subsidiaries (together the "Group") as at 30 June 2010, comprising of the interim condensed consolidated statement of financial position as at 30 June 2010 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements 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. Consequently, it 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

30 August 2010

ERNST & YOUNG LLC

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

(Thousands of Georgian Lari)

	Notes	30 June 2010	31 December 2009
		Unaudited	
Assets			
Cash and cash equivalents	6	450,692	337,372
Amounts due from credit institutions	7	78,131	85,137
Loans to customers	8	1,967,841	1,661,331
Finance lease receivables		14,645	16,896
Investment securities:			
– available-for-sale	9	35,480	19,590
– held-to-maturity	9	268,238	249,196
Investments in associates		5,378	10,323
Investment properties	10	99,459	79,509
Property and equipment		292,969	278,729
Goodwill and other intangible assets		92,516	85,442
Current income tax assets	11	8,246	7,997
Deferred income tax assets	11	16,631	15,487
Prepayments		19,983	18,140
Other assets		73,383	48,280
Total assets		**3,423,592**	**2,913,429**
Liabilities			
Amounts due to customers	13	1,487,200	1,272,470
Amounts due to credit institutions	12	1,152,300	928,615
Current income tax liabilities	11	17	574
Deferred income tax liabilities	11	31,822	24,661
Provisions		2,331	2,126
Other liabilities		100,160	86,566
Total liabilities		**2,773,830**	**2,315,012**
Equity	14		
Share capital		31,324	31,306
Additional paid-in capital		480,225	478,779
Treasury shares		(1,391)	(1,677)
Other reserves		49,931	24,387
Retained earnings		72,441	46,163
Total equity attributable to shareholders of the Bank		**632,530**	**578,958**
Non-controlling interests		17,232	19,459
Total equity		**649,762**	**598,417**
Total liabilities and equity		**3,423,592**	**2,913,429**

Signed and authorised for release on behalf of the Management Board of the Bank:

Irakli Gilauri  Chief Executive Officer

David Vakhtangishvili  Chief Financial Officer

30 August 2010

The accompanying selected notes on pages 6 to 28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2010	2009
			Unaudited
Interest income			
Loans to customers		185,968	185,730
Investment securities – held-to-maturity		6,999	2,742
Amounts due from credit institutions		4,894	2,227
Finance lease receivables		2,136	3,049
Investment securities – available-for-sale		450	883
		200,447	**194,631**
Interest expense			
Amounts due to customers		(54,719)	(44,715)
Amounts due to credit institutions		(44,861)	(51,509)
Debt securities issued		(18)	(165)
		(99,598)	**(96,389)**
Net interest income before impairment charge on interest-earning assets		**100,849**	**98,242**
Impairment charge on loans to customers		(23,878)	(70,615)
Impairment reversal (charge) on finance lease receivables		592	(412)
Net interest income after impairment charge on interest-earning assets		**77,563**	**27,215**
Fee and commission income		33,641	32,133
Fee and commission expense		(6,349)	(5,313)
Net fee and commission income	16	**27,292**	**26,820**
Net gains from for trading securities		2,140	1,609
Net gains from investment securities available-for-sale		–	307
Net losses from derivative financial instruments		(5,216)	(1,144)
Net gains (losses) from revaluation of investment properties	10	3,082	(6,194)
Net gains (losses) from foreign currencies:			
– dealing		15,747	11,368
– translation differences		(1,976)	3,366
Net insurance premiums earned		21,827	19,314
Share of loss of associates		–	(4,422)
Other operating income		10,580	12,939
Other non-interest income		**46,184**	**37,143**
Salaries and other employee benefits		(52,757)	(49,437)
General and administrative expenses		(28,433)	(27,112)
Net insurance claims incurred		(13,449)	(14,632)
Depreciation, amortization and impairment		(13,314)	(81,064)
Impairment reversal (charge) on other assets and provisions		3,331	(2,383)
Other operating expenses		(3,783)	(7,301)
Other non-interest expenses		**(108,405)**	**(181,929)**
Profit (loss) before income tax (expense) benefit		**42,634**	**(90,751)**
Income tax (expense) benefit	11	(6,289)	2,751
Profit (loss) for the period		**36,345**	**(88,000)**
Attributable to:			
– shareholders of the Bank		36,248	(75,636)
– non-controlling interests		97	(12,364)
		36,345	**(88,000)**
Earnings (loss) per share:	14		
– basic earnings (loss) per share		1.2046	(2.4312)
– diluted earnings (loss) per share		1.1996	(2.4312)

The accompanying selected notes on pages 6 to 28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

(Thousands of Georgian Lari)

	Note	For the six months ended 30 June	
		2010	2009
		Unaudited	
Profit (loss) for the period		**36,345**	**(88,000)**
Other comprehensive income			
– Revaluation of property and equipment		320	(2,407)
– Revaluation of available-for-sale securities		550	2,063
– Realized losses on available-for-sale securities reclassified to the consolidated income statement		–	(307)
– Net gain (loss) from currency translation differences		10,380	(7,164)
– Unrealized gain from acquiring shares in existing subsidiaries		4,487	1,099
Income tax relating to components of other comprehensive income	11	(163)	(155)
Other comprehensive income (loss) for the period, net of tax		**15,574**	**(6,871)**
Total comprehensive income (loss) for the period		**51,919**	**(94,871)**
Attributable to:			
– shareholders of the Bank		51,822	(81,971)
– non-controlling interests		97	(12,900)
		51,919	**(94,871)**

The accompanying selected notes on pages 6 to 28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

(Thousands of Georgian Lari)

	Attributable to shareholders of the Bank						*Non-controlling interests*	*Total equity*
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*		
31 December 2008	**31,253**	**468,732**	**(2,018)**	**26,201**	**141,491**	**665,659**	**53,190**	**718,849**
Total comprehensive loss for the period	–	–	–	(5,251)	(76,720)	(81,971)	(12,900)	(94,871)
Depreciation of revaluation reserve, net of tax	–	–	–	(633)	633	–	–	–
Increase in share capital arising from share-based payments (Note 14)	19	1,853	135	–	–	2,007	–	2,007
Share offering costs adjustment	–	306	–	–	–	306	–	306
Equity component of compound financial instrument	–	9,769	–	–	–	9,769	–	9,769
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	–	–	–	(2,460)	(2,460)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	17	17
Sale of treasury shares	–	1,244	432	–	–	1,676	–	1,676
Purchase of treasury shares	–	(3,461)	(212)	–	–	(3,673)	–	(3,673)
30 June 2009 *(unaudited)*	**31,272**	**478,443**	**(1,663)**	**20,317**	**65,404**	**593,773**	**37,847**	**631,620**
31 December 2009	**31,306**	**478,779**	**(1,677)**	**24,387**	**46,163**	**578,958**	**19,459**	**598,417**
Total comprehensive income for the period	–	–	–	26,084	25,738	51,822	97	51,919
Depreciation of revaluation reserve, net of tax	–	–	–	(540)	540	–	–	–
Increase in share capital arising from share-based payments (Note 14)	18	1,971	249	–	–	2,238	–	2,238
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	–	–	–	(6,249)	(6,249)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	3,925	3,925
Sale of treasury shares	–	3,040	236	–	–	3,276	–	3,276
Purchase of treasury shares	–	(3,565)	(199)	–	–	(3,764)	–	(3,764)
30 June 2010 *(unaudited)*	**31,324**	**480,225**	**(1,391)**	**49,931**	**72,441**	**632,530**	**17,232**	**649,762**

The accompanying selected notes on pages 6 to 28 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

(Thousands of Georgian Lari

	Notes	For the six months ended 30 June 2010	2009
			Unaudited
Cash flows from operating activities			
Interest received		199,514	188,779
Interest paid		(83,179)	(99,394)
Fees and commissions received		33,641	32,133
Fees and commissions paid		(6,349)	(5,313)
Net realized gains (losses) from trading securities		2,140	1,609
Net realized gains from investments securities		–	307
Net realized gains from foreign currencies		15,747	11,368
Recoveries of loans to customers		15,354	8,213
Insurance premiums received		21,827	19,314
Insurance claims paid		(13,449)	(14,632)
Other operating income received		10,580	12,939
Salaries and other employee benefits paid		(50,519)	(47,430)
General and administrative and operating expenses paid		(32,216)	(34,413)
Cash flows from operating activities before changes in operating assets and liabilities		**113,091**	**73,480**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		7,064	48,069
Loans to customers		(338,515)	223,002
Finance lease receivables		4,491	19,302
Prepayments and other assets		(15,450)	(17,070)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		201,387	(236,268)
Amounts due to customers		207,987	(181,136)
Other liabilities		5,666	(8,037)
Net cash flows from (used in) operating activities before income tax		**185,721**	**(78,658)**
Income tax paid		(1,395)	(1,093)
Net cash from (used in) operating activities		**184,326**	**(79,751)**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	4	296	(377)
Purchase of investment securities available-for-sale		(17,346)	–
Proceeds from sale of investment securities available-for-sale		–	17,619
Purchase of investment securities held-to-maturity		(19,042)	(35,637)
Proceeds from sale of investments in associates		2,003	93
Purchase of investment properties	10	(16,868)	(1,669)
Purchase of property and equipment and intangible assets		(18,799)	–
Proceeds from sale of property and equipment and intangible assets		–	17,714
Net cash used in investing activities		**(69,756)**	**(2,257)**
Cash flows from financing activities			
Proceeds from convertible loans received		–	89,790
Proceeds from increase in share capital		–	306
Purchase of treasury shares		(3,764)	(3,673)
Sale of treasury shares		3,276	1,676
Purchase of additional interests in existing subsidiaries, net of cash acquired		(6,249)	(2,460)
Net cash (used in) from financing activities		**(6,737)**	**85,639**
Effect of exchange rates changes on cash and cash equivalents		5,487	(1,055)
Net increase in cash and cash equivalents		**113,320**	**2,576**
Cash and cash equivalents, beginning		**337,372**	**397,591**
Cash and cash equivalents, ending	6	**450,692**	**400,167**

The accompanying selected notes on pages 6 to 28 are an integral part of these interim condensed consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

JSC Bank of Georgia (the "Bank") was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia, and was formerly known as State Bank Binsotsbanki. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994. The Bank is the ultimate parent of a group of companies (the "Group") incorporated in Georgia, Ukraine, Belarus and Cyprus, primary business activities include providing banking, leasing, insurance, brokerage and wealth management 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 Bank accepts deposits from the public and extends credit, transfers payments in Georgia and international and exchanges currencies. Its main office is in Tbilisi, Georgia. At 30 June 2010 the Bank has 137 operating outlets in all major cities of Georgia (2009: 141). The Bank's registered legal address is 3 Pushkin Street, Tbilisi 0105, Georgia.

As of 30 June 2010 and 31 December 2009 the following shareholders owned more than 4% of the outstanding shares of the Bank. Other shareholders individually owned less than 4% of the outstanding shares.

Shareholder	***30 June 2010, %***	***31 December 2009, %***
Bank of New York (Nominees), Limited	89.62%	88.86%
East Capital Financial Institutions	4.36%	4.36%
Others (less than 4% individually)	6.02%	6.78%
Total	**100.00%**	**100.00%**

As of 30 June 2010, the members of the Supervisory Board and Board of Directors owned 424,005 shares and Global Depositary Receipts ("GDRs") (1.35%; 2009: 612,962 shares and GDRs 1.96%) of the Bank. Interests of the members of the Supervisory Board and Management Board were as follows:

Shareholder	***30 June 2010, shares held***	***31 December 2009, shares held***
Sulkhan Gvalia	140,382	136,049
Irakli Gilauri	134,230	216,230
Allan Hirst	52,686	46,772
Avto Namicheishvili	32,489	29,999
Irakli Burdiladze	23,035	23,035
Kakha Kiknavelidze	19,462	15,027
David Morisson	11,777	7,342
Giorgi Chiladze	6,333	6,333
Al Breach	3,611	–
Nicholas Enukidze*	–	122,259
Mikheil Gomarteli	–	9,916
Total	**424,005**	**612,962**

In addition to shares held, the members of the Supervisory Board and Management Board were awarded 221,922 and 150,000 Global Depository Receipts ("GDR") in six months ended 30 June 2010 and six months ended 30 June 2009, respectively. The awards are subject to three-year vesting. As of 30 June 2010 215,640 vested GDRs owned by the members of the Supervisory Board and Management Board comprised as follows (in 2009: 419,814):

Member of the Supervisory Board and/or Management Board	***30 June 2010, GDRs vested***	***31 December 2009, GDRs vested***
Irakli Gilauri	132,643	214,643
Avto Namicheishvili	31,667	29,999
Irakli Burdiladze	22,665	22,665
Sulkhan Gvalia	22,332	13,999
Giorgi Chiladze	6,333	6,333
Nicholas Enukidze*	–	122,259
Mikheil Gomarteli	–	9,916
Total	**215,640**	**419,814**

* Resigned as a chairman of the Supervisory Board of the Bank on 18 May 2010.

(Thousands of Georgian Lari)

2. Basis of Preparation

General

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2009.

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of new Standards and Interpretations as of 1 January 2010, noted below:

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)
The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change has no impact on goodwill, nor it gives raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards are applied prospectively.

Improvements to IFRSs
In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Group, except the following amendments resulting in changes to accounting policies, as described below.

- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group continues to disclose this information.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Group as the annual impairment test is performed before aggregation.

The following new or revised standards and interpretations effective from 2010 did not have any impact on the accounting policies, financial position or performance of the Group:

- *Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items*
- *Amendment to IFRS 2 "Share-based Payment" - Group Cash-settled Share-based Payment Transactions*
- *IFRIC 17 "Distribution of Non-Cash Assets to Owners"*
- *Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"*

(Thousands of Georgian Lari)

4. Business Combinations

Acquisitions during the six months ended 30 June 2010

JSC Teliani Valley

On 28 February 2010 JSC Liberty Consumer acquired 52.33% of "JSC Teliani Valley", a winery operating in Georgia and Ukraine. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from JSC Teliani Valley as of the date of acquisition was:

	Fair value recognized on acquisition
Cash and cash equivalents	296
Trading securities	954
Accounts receivable	3,596
Property and equipment	8,676
Goodwill and other intangible assets	151
Deferred income tax assets	78
Other assets	6,113
	19,864
Amounts owed to credit institutions	8,622
Accounts payable	916
Deferred income tax liabilities	395
Other liabilities	1,698
	11,631
Total identifiable net assets	**8,233**
Share in fair value of total identifiable net assets acquired (52.33%)	4,308
Goodwill arising on acquisition	3,199
Consideration paid	**7,507**

The net cash inflow on acquisition was as follows:

	2010
Cash paid	–
Cash acquired with the subsidiary	(296)
Net cash inflow	**296**

(Thousands of Georgian Lari)

4. Business Combinations (continued)

Acquisitions during the six months ended 30 June 2009

Planeta Forte, LLC

On 1 January 2009 JSC Liberty Consumer acquired 51% of "Planeta Forte, LLC", a newspaper retailer company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from Planeta Forte, LLC as of the date of acquisition was:

	Fair value recognized on acquisition
Cash and cash equivalents	4
Property and equipment	55
Other assets	460
	519
Other liabilities	486
	486
Fair value of net assets	**33**
Share in fair value of net assets acquired (51%)	17
Goodwill arising on acquisition	364
Consideration paid	**381**

The net cash outflow on acquisition was as follows:

	2009
Cash paid	381
Cash acquired with the subsidiary	(4)
Net cash outflow	**377**

(Thousands of Georgian Lari)

5. Operating Segment Information

For management purposes, the Group is organised into seven operating segments based on products and services as follows:

Retail Banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities.
Corporate Banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Brokerage	Principally providing brokerage, custody and corporate finance services to its individual as well as corporate customers. Brokerage also possesses its own proprietary book for trading as well as for non-trading purposes, comprising primarily of trading and investment securities.
Wealth Management	Principally providing wealth management services to VIP individual customers.
Asset Management	Principally providing asset management services to VIP corporate customers.
Insurance	Principally providing wide-scale insurance services to corporate and individual customers.
Corporate Centre	Principally providing back office services to all operating segments of the Bank

For purposes of presentation in these consolidated financial statements, due to the insignificance of certain operating segments to be separately shown, Management has combined Brokerage, Asset Management and Wealth Management operating segments into one. Therefore, operating segment information presented in these consolidated financial statements is classified as follows:

Retail Banking	Brokerage and Asset and Wealth Management
Insurance	Corporate Centre
Corporate Banking	

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Transactions between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during the six months ended 30 June 2010 or the six months ended 30 June 2009.

(Thousands of Georgian Lari)

5. Operating Segment Information (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments as of and for the six months ended 30 June 2010 (unaudited):

	Retail banking	*Corporate banking*	*Brokerage and Asset and wealth management*	*Corporate center*	*Insurance*	*Inter – company elimination*	*Total*
External operating income:							
Net interest income (expense)	60,152	76,239	(8,776)	(26,332)	(434)	–	100,849
Net fees and commission income	16,684	4,770	978	4,749	111	–	27,292
Net foreign currency gains	254	1,916	919	10,067	615	–	13,771
Other external revenues (expenses)	1,254	1,172	10,140	(2,929)	22,776	–	32,413
Operating income from other segments	916	688	1,326	1,770	889	(5,589)	–
Total operating income	**79,260**	**84,785**	**4,587**	**(12,675)**	**23,957**	**(5,589)**	**174,325**
Impairment charge on interest earning assets	28,847	9,120	6	(15,354)	–	667	23,286
Results							
Segment results	1,483	57,974	(7,138)	(11,247)	2,229	(667)	42,634
Unallocated expenses							–
Profit before income tax expense							**42,634**
Income tax expense							(6,289)
Profit for the period							**36,345**
Assets and liabilities							
Segment assets	1,453,741	1,787,906	89,334	74,671	51,523	(58,460)	3,398,715
Unallocated assets							24,877
Total assets							**3,423,592**
Segment liabilities	1,059,606	1,346,808	343,679	9	51,111	(59,222)	2,741,991
Unallocated liabilities							31,839
Total liabilities							**2,773,830**
Other segment information							
Capital expenditures, of which:	**6,003**	**6,660**	**453**	**5,176**	**–**	**–**	**18,292**
Property and equipment	4,389	4,884	418	5,016	–	–	14,707
Intangible assets	1,614	1,776	35	160	–	–	3,585
Depreciation and impairment	5,196	5,221	1,053	231	–	–	11,701
Amortization and impairment	876	676	46	15	–	–	1,613

(Thousands of Georgian Lari)

5. Operating Segment Information (continued)

The following table presents income and profit and certain asset and liability information regarding the Group's operating segments for the six months ended 30 June 2009 (unaudited) and as of 31 December 2009 respectively:

	Retail banking	*Corporate banking*	*Brokerage and Asset and wealth management*	*Corporate center*	*Insurance*	*Inter – company elimination*	*Total*
External operating income:							
Net interest income (expense)	68,584	57,703	463	(28,057)	(451)	–	98,242
Net fees and commission income	15,403	9,542	1,983	(630)	522	–	26,820
Net foreign currency gains (losses)	854	2,526	490	11,038	(174)	–	14,734
Other external revenues	310	4,182	(16,599)	12,599	21,917	–	22,409
Operating income from other segments	(335)	(679)	(285)	877	1,576	(1,154)	–
Total operating income	**84,816**	**73,274**	**(13,948)**	**(4,173)**	**23,390**	**(1,154)**	**162,205**
Impairment charge on interest earning assets	46,050	14,419	546	11,792	–	(1,780)	71,027
Results							
Segment results	(45,406)	6,923	(21,256)	(33,734)	1,147	1,575	(90,751)
Unallocated expenses							–
Loss before income tax benefit							**(90,751)**
Income tax benefit							2,751
Loss for the period							**(88,000)**
Assets and liabilities							
Segment assets	1,228,861	1,392,189	162,902	103,242	48,351	(45,600)	2,889,945
Unallocated assets							23,484
Total assets							**2,913,429**
Segment liabilities	893,703	1,143,356	215,630	43,452	39,236	(45,600)	2,289,777
Unallocated liabilities							25,235
Total liabilities							**2,315,012**
Other segment information							
Capital expenditures, of which:	**12,003**	**11,349**	**996**	**317**	**393**	–	**25,058**
Property and equipment	10,436	9,859	870	267	389	–	21,821
Intangible assets	1,567	1,490	126	50	4	–	3,237
Depreciation and impairment	5,379	4,518	489	673	256	–	11,315
Amortization and impairment	41,106	28,194	51	388	10	–	69,749
Share of loss of associates	–	–	(4,422)	–	–	–	(4,422)

Geographic information

The Group operates in three main geographical markets: (a) Georgia, (b) Ukraine and Cyprus and (c) Belarus. The following table shows the distribution of the Group's external income, total assets and capital expenditure allocated based on the location of the Group's assets, as of and for the six months ended 30 June 2010:

	Georgia 30 June 2010 *(unaudited)*	*Ukraine and Cyprus 30 June 2010* *(unaudited)*	*Belarus 30 June 2010* *(unaudited)*	*Total 30 June 2010* *(unaudited)*
External income				
Net interest income	91,885	4,808	4,156	100,849
Net fee and commission income	25,418	1,218	656	27,292
Net foreign currency gains	9,899	3,183	689	13,771
Other non-interest income	26,988	2,069	3,356	32,413
Total external income	**154,190**	**11,278**	**8,857**	**174,325**
Total assets	**3,038,481**	**243,685**	**141,426**	**3,423,592**
Capital expenditures	**12,769**	**5,128**	**395**	**18,292**

(Thousands of Georgian Lari)

5. Operating Segment Information (continued)

Geographic information (continued)

The following table shows the distribution of the Group's external income and capital expenditure for the six months ended 30 June 2009 and total assets as of 31 December 2009, allocated based on the location of the Group's assets:

	Georgia 30 June 2009	*Ukraine and Cyprus 30 June 2009*	*Belarus 30 June 2009*	*Total*
External income				
Net interest income	87,291	8,973	1,978	98,242
Net fee and commission income	24,558	1,623	639	26,820
Net foreign currency gains	12,200	1,077	1,457	14,734
Other non-interest income	18,783	3,505	121	22,409
Total external income	**142,832**	**15,178**	**4,195**	**162,205**
Total assets	**2,606,676**	**226,739**	**80,014**	**2,913,429**
Capital expenditures	**24,469**	**349**	**240**	**25,058**

6. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	30 June 2010 (unaudited)	*31 December 2009*
Cash on hand	120,285	154,861
Current accounts with central banks, excluding obligatory reserves	6,625	23,584
Current accounts with other credit institutions	75,824	34,944
Time deposits with credit institutions up to 90 days	247,958	123,983
Cash and cash equivalents	**450,692**	**337,372**

As of 30 June 2010 GEL 277,950 (2009: GEL 127,816) was placed on current and time deposit accounts with internationally recognized OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 1.26% interest per annum on these deposits (2009: 0.17%).

7. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	30 June 2010 (unaudited)	*31 December 2009*
Obligatory reserves with central banks	49,774	62,308
Time deposits with effective maturity of more than 90 days	23,733	18,599
Inter-bank loan receivables	4,624	4,230
Amounts due from credit institutions	**78,131**	**85,137**

(Thousands of Georgian Lari)

7. Amounts Due from Credit Institutions (continued)

Obligatory reserves with central banks represent amounts deposited with the NBG ("National Bank of Georgia"), the NBU ("National Bank of Ukraine") and the NBRB (National Bank of the Republic of Belarus). Credit institutions are required to maintain an interest-earning cash deposit (obligatory reserve) with central banks, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group earned up to 2% annual interest on obligatory reserve with NBG in 2010 and 2009.

As of 30 June 2010 GEL 10,261 (2009: GEL 10,940) was placed on current accounts and inter-bank time deposits with one (2009: seven) internationally recognised OECD banks. Those amounts were pledged to the counterparty bank as security for open commitments.

As of 30 June 2010 inter-bank loan receivables include GEL 6,108 (2009: GEL 4,215) placed with an Azerbaijani bank.

8. Loans to Customers

Loans to customers comprise:

	30 June 2010 *(unaudited)*	*31 December 2009*
Commercial loans	1,158,360	939,814
Residential mortgage loans	423,963	387,415
Consumer loans	346,265	332,537
Micro loans	157,476	99,981
Gold – pawn loans	68,268	62,829
Others	5,833	5,241
Loans to customers, gross	**2,160,165**	**1,827,817**
Less – Allowance for loan impairment	(192,324)	(166,486)
Loans to customers, net	**1,967,841**	**1,661,331**

Concentration of loans to customers

As of 30 June 2010 concentration of loans granted by the Group to ten largest third party borrowers comprised GEL 255,206 accounting for 12% of gross loan portfolio of the Group (2009: GEL 206,981 and 11%, respectively). An allowance of GEL 6,446 (2009: GEL 9,891) was established against these loans.

Loans are principally issued within Georgia, and their distribution by industry sector is as follows:

	30 June 2010 *(Unaudited)*	*31 December 2009*
Individuals	962,649	862,365
Trade and services	657,457	578,623
Construction and development	204,059	150,676
Transport and communication	121,293	81,532
Energy	66,568	11,667
Mining	11,146	62,622
Agriculture	19,760	13,730
Others	117,233	66,602
Loans to customers, gross	**2,160,165**	**1,827,817**
Less – allowance for loan impairment	(192,324)	(166,486)
Loans to customers, net	**1,967,841**	**1,661,331**

(Thousands of Georgian Lari)

8. Loans to Customers (continued)

Loans have been extended to the following types of customers:

	30 June 2010 *(Unaudited)*	*31 December 2009*
Private companies	1,143,749	934,494
Individuals	962,649	862,365
State-owned entities	53,767	30,958
Loans to customers, gross	**2,160,165**	**1,827,817**
Less – allowance for loan impairment	(192,324)	(166,486)
Loans to customers, net	**1,967,841**	**1,661,331**

9. Investment Securities

Available-for-sale securities comprise:

	30 June 2010 *(Unaudited)*	*31 December 2009*
Corporate shares	8,638	13,418
Ministry of Finance treasury bills	4,932	4,044
Certificates of deposits of central banks	19,536	–
Corporate bonds	2,493	2,946
	35,599	**20,408**
Less – Allowance for impairment	(119)	(818)
Available-for-sale securities	**35,480**	**19,590**

Corporate shares as of 30 June 2010 are primarily comprised of investments in a Georgian retail chain of GEL 2,677 (2009: GEL 2,677), a real estate company of GEL 1,145 (2009: nil) and a chain of drug stores of GEL 4,346 (2009: 4,413).

Corporate bonds as of 30 June 2010 are comprised of GEL 2,493 investments in several financial institutions in Ukraine (2009: GEL 2,946).

Certificates of deposits of central banks are comprised of GEL 19,536 debt certificates issued by the National Bank of Republic of the Belarus (2009: nil).

Nominal interest rates and maturities of these securities are as follows:

	30 June 2010		*31 December 2009*	
	%	*Maturity*	*%*	*Maturity*
Corporate bonds	17.75%	2010	19.76%	1-2 years
Ministry of Finance treasury bills	9.5%	2010	9.50%	1-2 years
Certificates of deposits of central banks	9.6%	2010	–	–

Held-to-maturity securities comprise:

	30 June 2010 *(Unaudited)*		*31 December 2009*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*
Certificates of deposit of central banks	37,943	38,400	105,143	105,624
Ministry of Finance treasury bills	230,295	238,181	144,053	149,124
Held-to-maturity securities	**268,238**	**276,581**	**249,196**	**254,748**

(Thousands of Georgian Lari)

9. Investment Securities (continued)

Contractual interest rates and maturities of these securities are as follows:

	30 June 2010		*31 December 2009*	
	%	*Maturity*	*%*	*Maturity*
Ministry of Finance treasury bills	7.31%	2010	6.33%	2010
Certificates of deposit of central banks	7.73%	2010	3.11%	2010

10. Investment Properties

	30 June 2010 (Unaudited)	*30 June 2009 (Unaudited)*
At 1 January	**79,509**	**47,289**
Additions	16,868	1,669
Net change in fair value through profit and loss	3,082	(6,194)
Transfers from property and equipment and other assets	–	23,042
At 30 June (unaudited)	**99,459**	**65,806**

Investment properties are stated at fair value, which has been determined based on the valuation performed by Georgian Valuation Company, an accredited independent appraiser, as at 31 May 2010. Georgian Valuation Company is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

11. Taxation

Corporate income tax expense comprises:

	For the six months ended	
	30 June 2010 *(Unaudited)*	*30 June 2009* *(unaudited)*
Current income tax expense	437	1,248
Deferred income tax expense (benefit)	5,852	(3,999)
Income tax expense (benefit)	**6,289**	**(2,751)**
Deferred income tax benefit recognized in other comprehensive income	**(163)**	**(155)**

Deferred tax related to items charged or credited to other comprehensive income during the period is as follows:

	For the six months ended	
	30 June 2010 *(Unaudited)*	*30 June 2009* *(unaudited)*
Net losses on investment securities available for sale	(112)	(344)
Revaluation of buildings	(51)	189
Income tax benefit to other comprehensive income	**(163)**	**(155)**

The income tax rate applicable to the majority of the Group's income is the income tax rate applicable to subsidiaries income which ranges from 15% to 26% (2009: from 15% to 26%). The tax rate for interest income on state securities changed from 10% to 7.5%, effective 1 January 2009 and further from 7.5% to 0%, effective 9 August 2009. Reconciliation between the expected and the actual taxation charge is provided below.

(Thousands of Georgian Lari)

11. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. As of 30 June 2010 and 2009 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	For the six months ended	
	30 June 2010 *(Unaudited)*	***30 June 2009*** *(unaudited)*
Profit (loss) before income tax expense (benefit)	**42,634**	**(90,751)**
Statutory tax rate	15%	15%
Theoretical income tax expense (benefit) at statutory tax rate	**6,395**	**(13,613)**
Tax at the domestic rates applicable to profits in the respective country	(94)	(255)
Other operating income	(95)	–
State securities at lower tax rates	(252)	(339)
Non-deductible expenses:		
– impairment of intangible assets	–	10,257
– other	335	1,199
Income tax expense (benefit)	**6,289**	**(2,751)**

Applicable taxes in Georgia, Ukraine and Belarus include corporate income tax (profits tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia, Ukraine and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

Tax assets and liabilities consist of the following:

	30 June 2010 *(Unaudited)*	***31 December 2009***
Current income tax assets	8,246	7,997
Deferred income tax assets	16,631	15,487
Income tax assets	**24,877**	**23,484**
Current income tax liabilities	17	574
Deferred income tax liabilities	31,822	24,661
Income tax liabilities	**31,839**	**25,235**

12. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	30 June 2010 *(Unaudited)*	***31 December 2009***
Borrowings from international credit institutions	940,467	913,579
Time deposits and inter-bank loans	204,596	12,761
Sub-total	**1,145,063**	**926,340**
Correspondent accounts	7,237	2,275
Amounts due to credit institutions	**1,152,300**	**928,615**

During the six months ended 30 June 2010 the Group received short-term funds from Georgian banks in different currencies. As of 30 June 2010 the Group had no deposits in foreign currencies received from Georgian banks (2009: GEL 1,566). During the six months ended 30 June 2010 the Group did not make interest payment on such deposits, while during the year ended 31 December 2009 the Group paid up to 0.2% interest per annum.

(Thousands of Georgian Lari)

12. Amounts Due to Credit Institutions (continued)

Borrowings from international credit institutions, time deposits and inter-bank loans were comprised of:

As of 30 June 2010 (unaudited) *Credit institution*	*Grant date*	*Contractual maturity*	*Currency*	*Interest rate per annum*	*Facility amount in original currency*	*Outstanding Balance as of 30 June 2010 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	9.00%	200,000	294,126
National Bank of Georgia	24-Jun-10	1-Jul-10	GEL	6.37%	136,500	136,643
International Financial Corporation	13-Jan-09	15-Jul-13	USD	LIBOR +5.5%	50,000	93,235
European Bank for Reconstructions and Development	13-Jan-09	15-Jan-14	USD	LIBOR +5.5%	50,000	92,570
Merrill Lynch International **	17-Aug-07	17-Aug-12	USD	LIBOR+5.99%	35,000	65,117
Netherland Development Finance Company **	18-Jul-08	15-Oct-18	USD	LIBOR + 7.25%	30,000	55,408
Overseas Private Investment Corporation	23-Dec-08	19-Dec-18	USD	5.75%	29,000	49,928
International Financial Corporatation **	13-Jan-09	15-Jan-19	USD	LIBOR + 10%	23,956	44,962
European Bank for Reconstructions and Development** **	13-Jan-09	15-Jan-19	USD	LIBOR + 10%	23,956	44,897
European Bank for Reconstructions and Development **	13-Jan-09	15-Jan-19	USD	LIBOR +8%	26,044	44,897
International Financial Corporation **	13-Jan-09	15-Jan-19	USD	LIBOR +8%	26,044	44,891
Semper Augustos B.V. **	29-Oct-07	25-Oct-17	USD	11.65%	15,000	28,218
JSC TBC Bank	30-Jun-10	1-Jul-10	GEL	5.35%	20,000	20,000
Overseas Private Investment Corporation **	23-Dec-08	19-Dec-18	USD	7.75%	10,000	18,163
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	LIBOR+3.3%	12,500	16,148
Citibank International PLC	17-Aug-07	20-Aug-10	USD	LIBOR+2.75%	8,333	15,516
World Business Capital	17-Feb-06	1-Jan-16	USD	LIBOR+2.75%	10,000	9,893
World Business Capital	29-May-07	25-Mar-17	USD	LIBOR+2.75%	4,151	7,184
Commerzbank AG	30-Dec-05	30-Dec-10	USD	LIBOR+1.3%	3,837	6,215
JSC VTB Bank Georgia	25-Jun-10	1-Jul-10	GEL	6.25%	5,000	5,004
JSC Cartu Bank	28-Jun-10	5-Jul-10	GEL	6%	5,000	5,002
JSC TBC Bank	30-Jun-10	1-Jul-10	GEL	7%	5,000	5,000
Balances less than 5,000 KGEL						42,046
Total						**1,145,063**

As of 31 December 2009 *Credit institution*	*Grant date*	*Contractual maturity*	*Currency*	*Interest rate per annum*	*Facility amount in original currency*	*Outstanding Balance as of 31 December 2009 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	9.00%	200,000	303,164
International Financial Corporation	13-Jan-09	15-Jul-13	USD	LIBOR +5.5%	50,000	85,979
European Bank for Reconstructions and Development	13-Jan-09	15-Jan-14	USD	LIBOR +5.5%	50,000	85,920
Merrill Lynch International **	17-Aug-07	17-Aug-12	USD	LIBOR+5.99%	35,000	59,472
Overseas Private Investment Corporation	23-Dec-08	19-Dec-18	USD	5.75%	29,000	48,602
Netherland Development Finance Company **	18-Jul-08	15-Oct-18	USD	LIBOR + 7.25%	30,000	49,570
European Bank for Reconstructions and Development** **	13-Jan-09	15-Jan-19	USD	LIBOR + 10%	23,956	42,365
International Financial Corporatation **	13-Jan-09	15-Jan-19	USD	LIBOR + 10%	23,956	42,344
European Bank for Reconstructions and Development **	13-Jan-09	15-Jan-19	USD	LIBOR +8%	26,044	40,700
International Financial Corporation **	13-Jan-09	15-Jan-19	USD	LIBOR +8%	26,044	40,694
Semper Augustos B.V. **	31-Oct-07	25-Oct-17	USD	11.65%	15,000	25,803
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	LIBOR+3.3%	12,500	17,029
Overseas Private Investment Corporation **	23-Dec-08	19-Dec-18	USD	7.75%	10,000	16,844
Citibank International PLC	17-Aug-07	20-Feb-10	USD	LIBOR+2.75%	8,333	14,157
Citibank International PLC	17-Aug-07	20-Aug-10	USD	LIBOR+2.75%	8,333	14,000
World Business Capital	17-Feb-06	1-Oct-16	USD	LIBOR+2.75%	10,000	9,705
World Business Capital	29-May-07	25-Mar-17	USD	LIBOR+2.75%	4,151	6,998
Commerzbank AG	30-Dec-05	30-Dec-10	USD	LIBOR+1.3%	3,837	6,172
Balances less than 5,000 KGEL						16,822
Total						**926,340**

*** - includes accrued interest**
**** - total subordinated loans comprised GEL 346,527 as at 30 June 2010 (2009: GEL 317,792)**

(Thousands of Georgian Lari)

12. Amounts Due to Credit Institutions (continued)

Agreements for significant borrowings contain certain covenants requiring the Group for different limits for capital adequacy, liquidity, currency position, credit exposures, leverage and others. At 30 June 2010 and 31 December 2009, the Group complied with all the covenants of the loans received from credit institutions.

The borrowings received on 13 January 2009 from European Bank for Reconstructions and Development and International Financial Corporation, comprising USD 26,044 thousand each, had a convertibility feature valid for 5 years from the loan granting date (convertibility period). Number of estimated potential shares to be issued under these convertible facilities comprises 3,474,614 ordinary shares of the Bank.

13. Amounts Due to Customers

Amounts due to customers comprise:

	30 June 2010 *(Unaudited)*	*31 December 2009*
Current accounts	625,737	559,987
Time deposits	861,463	712,483
Amounts due to customers	**1,487,200**	**1,272,470**
Held as security against letters of credit and guarantees	**52,043**	**56,758**

As of 30 June 2010, amounts due to customers of GEL 243,258 (16%) were due to the 10 largest customers (2009: GEL 217,264 (17%)).

Amounts due to customers include accounts with the following types of customers:

	30 June 2010 *(Unaudited)*	*31 December 2009*
Individuals	752,187	637,789
Private enterprises	633,727	578,849
State and budget organizations	101,286	55,832
Amounts due to customers	**1,487,200**	**1,272,470**

The breakdown of customer accounts by industry sector is as follows:

	30 June 2010 *(Unaudited)*	*31 December 2009*
Individuals	752,187	637,789
Trade and services	346,769	273,190
State and budget organizations	101,286	55,832
Energy	104,148	116,810
Construction and development	61,769	79,082
Transport and communication	36,840	47,166
Mining and processing	30,797	27,638
Agriculture	1,279	13,588
Other	52,125	21,375
Amounts due to customers	**1,487,200**	**1,272,470**

(Thousands of Georgian Lari)

14. Equity

Share capital

As of 30 June 2010, authorized share capital comprised 43,308,125 common shares, of which 31,324,466 were issued and fully paid (30 June 2009: 43,308,125 common shares, of which 31,272,025 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as of and for the six months ended 30 June 2010 and 30 June 2009 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2008	**31,253,283**	**31,253**
Increase in share capital arising from share-based payments	18,742	19
30 June 2009 (unaudited)	**31,272,025**	**31,272**
31 December 2009	**31,306,071**	**31,306**
Increase in share capital arising from share-based payments	18,395	18
30 June 2010 (unaudited)	**31,324,466**	**31,324**

Share capital of the Group was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. Six months ended 30 June 2010 net income attributable to ordinary shareholders of the Bank comprise GEL 36,248 (six months ended 30 June 2009: net loss of GEL 75,636). At 30 June 2010 weighted average number of ordinary shares outstanding during the six months ended that date was 30,091,725 (at 30 June 2009: 31,110,219). At 30 June 2010 the diluted number of ordinary shares was 33,566,338 (at 30 June 2009: 34,584,833). For the six months ended 30 June 2010, basic and diluted earnings per share amounted to GEL 1.2046 and GEL 1.1996 respectively. For the six months ended 30 June 2009 both, the basic and diluted loss per share amounted to GEL 2.4312.

Treasury shares

Treasury shares of GEL 1,391 as of 30 June 2010 comprise the Bank's own shares owned by the Bank and its subsidiaries (as of 31 December 2009: GEL 1,677). Purchases and sales of treasury shares were conducted by the Bank's subsidiaries in the open market: JSC BG Capital, BG Trading LLC, Galt and Taggart Holdings Limited LLC, GC Holdings LLC and JSC Insurance Company Aldagi BCI.

Treasury shares amounting to GEL 438 as of 30 June 2010 (as of 31 December 2009: GEL 1,009) are kept by the Bank's custodian –Abacus Corporate Trustee Limited.

During the six months ended 30 June 2010, 18,395 ordinary shares of GEL18 at par value and additional paid-in capital of GEL 349 have been granted as compensation to top management (six months ended 30 June 2009: 18,742 ordinary shares of GEL 19 at par value and additional paid-in capital of GEL 416).

Dividends

No dividends were declared nor paid during 2010 and 2009.

Nature and purpose of other reserves

Revaluation reserve for property and equipment and investment properties
The revaluation reserve for property and equipment and investment properties is used to record increases in the fair value of buildings and investment properties and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains (losses) on investment securities available-for-sale
This reserve records fair value changes on investments available-for-sale.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Movements in other reserves during six months ended 30 June 2010 and 30 June 2009 are presented in the interim condensed consolidated statement of other comprehensive income.

(Thousands of Georgian Lari)

15. Commitments and Contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Financial commitments and contingencies

The Group's financial commitments and contingencies comprised the following:

	30 June 2010 *(Unaudited)*	*31 December 2009*
Credit-related commitments		
Undrawn loan facilities	105,163	76,999
Letters of credit	33,703	30,038
Guarantees	279,422	240,613
	418,288	**347,650**
Operating lease commitments		
Not later than 1 year	7,198	6,281
Later than 1 year but not later than 5 years	14,540	13,396
Later than 5 years	5,580	6,497
	27,318	**26,174**
Capital expenditure commitments	**9,201**	**9,309**
Less – Provisions	(2,131)	(2,126)
Less – Cash held as security against letters of credit and guarantees (Note 13)	(52,043)	(56,758)
Financial commitments and contingencies, net	**400,633**	**324,249**

As of 30 June 2010 the capital expenditures represented the commitment for purchase of property and capital repairs of GEL 2,398 and software and other intangible assets of GEL 6,803. As of 31 December 2009 the capital expenditures represented the commitment for purchase of property and capital repairs GEL 1,512 and software and other intangible assets of GEL 7,797.

(Thousands of Georgian Lari)

16. Net Fee and Commission Income

For the six months ended 30 June net fee and commission income comprise:

	For the six months ended	
	30 June 2010 *(Unaudited)*	***30 June 2009*** *(unaudited)*
Settlements operations	18,825	13,574
Guarantees and letters of credit	6,068	5,180
Cash operations	4,156	7,272
Brokerage service fees	530	439
Currency conversion operations	270	518
Advisory	84	728
Other	3,708	4,422
Fee and commission income	**33,641**	**32,133**
Settlements operations	(3,462)	(1,686)
Guarantees and letters of credit	(1,021)	(1,074)
Insurance brokerage service fees	(475)	(462)
Cash operations	(406)	(1,560)
Currency conversion operations	(4)	(28)
Other	(981)	(503)
Fee and commission expense	**(6,349)**	**(5,313)**
Net fee and commission income	**27,292**	**26,820**

17. Fair Values of Financial Instruments

Financial instruments recorded at fair value

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1	***Level 2***	***Level 3***	***Total 30 June 2010 (unaudited)***
Financial assets				
Investment securities – available-for-sale	7,757	22,314	5,409	35,480
Other assets – derivative financial assets	579	–	–	579
Other assets – trading securities owned	803	–	–	803
	9,139	**22,314**	**5,409**	**36,862**
Financial liabilities				
Other liabilities – derivative financial liabilities	–	12,426	–	12,426
	–	**12,426**	**–**	**12,426**

(Thousands of Georgian Lari)

17. Fair Values of Financial Instruments (continued)

Financial instruments recorded at fair value (continued)

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2009*
Financial assets				
Investment securities – available-for-sale	4,320	11,005	4,265	19,590
Other assets – derivative financial assets	1,129	–	–	1,129
Other assets – trading securities owned	2,268	–	–	2,268
	7,717	**11,005**	**4,265**	**22,987**
Financial liabilities				
Other liabilities – derivative financial liabilities	288	7,172	–	7,460
	288	**7,172**	**–**	**7,460**

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives
Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Trading securities and investment securities available-for-sale
Trading securities and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value
The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2010	*Purchase of AFS securities*	*At 30 June 2010* *(unaudited)*
Financial assets			
Investment securities – available-for-sale	4,265	1,144	5,409
Total level 3 financial assets	**4,265**	**1,144**	**5,409**
Total net level 3 financial assets / (liabilities)	**4,265**	**1,144**	**5,409**

No financial instruments were transferred during the six months ended 30 June 2010 from level 1 and level 2 to level 3 of the fair value hierarchy. Gains or losses on level 3 financial instruments during the six months ended 30 June 2010 comprised nil.

No financial instruments were transferred during the six months ended 30 June 2010 between level 1 and level 2 of the fair value hierarchy.

(Thousands of Georgian Lari)

17. Fair Values of Financial Instruments (continued)

Financial instruments recorded at fair value (continued)

	At 1 January 2009	*Transfer from other assets*	*At 31 December 2009*
Financial assets			
Investment securities – available-for-sale	–	4,265	4,265
Total level 3 financial assets	–	**4,265**	**4,265**
Total net level 3 financial assets / (liabilities)	–	**4,265**	**4,265**

No financial instruments were transferred during 2009 from level 1 and level 2 to level 3 of the fair value hierarchy. Gains or losses on level 3 financial instruments during 2009 comprised nil.

No financial instruments were transferred during 2009 between level 1 and level 2 of the fair value hierarchy.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	Carrying amount	*Effect of reasonably possible alternative assumptions*	*Carrying amount*	*Effect of reasonably possible alternative assumptions*
	30 June 2010 (unaudited)		*31 December 2009*	
Financial assets				
Investment securities – available-for-sale	5,409	+/- 814	4,265	+/- 642

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable model inputs as follows:

For equities, the Group adjusted the EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) multiple by increasing and decreasing the assumed multiple ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the EBITDA multiples used across peers within the same geographic area of the same industry.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	30 June 2010 (unaudited)			*31 December 2009*		
	Carrying value	*Fair value*	*Unrecognised gain / (loss)*	*Carrying value*	*Fair value*	*Unrecognised gain / (loss)*
Financial assets						
Cash and cash equivalents	450,692	450,692	–	337,372	337,372	–
Amounts due from credit institutions	78,131	78,131	–	85,137	85,137	–
Loans to customers	1,967,841	1,976,960	9,119	1,661,331	1,621,779	(39,552)
Finance lease receivables	14,645	14,645	–	16,896	16,896	–
Investment securities:						
– available–for–sale	35,480	35,480	–	19,590	19,590	–
– held-to-maturity	268,238	268,238	–	249,196	249,196	–
Financial liabilities						
Amounts due to customers	1,487,200	1,495,828	(8,628)	1,272,470	1,271,298	1,172
Amounts due to credit institutions	1,152,300	1,152,300	–	928,615	928,615	–
Total unrecognised change in unrealised fair value			**491**			**(38,380)**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

(Thousands of Georgian Lari)

17. Fair Values of Financial Instruments (continued)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than thee months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to current account deposits which has no specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

18. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

	31 June 2010 (unaudited)			*31 December 2009*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets						
Cash and cash equivalents	450,692	–	450,692	337,372	–	337,372
Amounts due from credit institutions	69,011	9,120	78,131	80,638	4,499	85,137
Loans to customers	845,518	1,122,323	1,967,841	655,906	1,005,425	1,661,331
Finance lease receivables	11,134	3,511	14,645	12,466	4,430	16,896
Investment securities:						
– available–for–sale	35,480	–	35,480	19,590	–	19,590
– held–to–maturity	268,238	–	268,238	249,196	–	249,196
Total	**1,680,073**	**1,134,954**	**2,815,027**	**1,355,168**	**1,014,354**	**2,369,522**
Financial liabilities						
Amounts due to customers	1,404,800	82,400	1,487,200	1,197,697	74,773	1,272,470
Amounts due to credit institutions	275,330	876,970	1,152,300	37,866	890,749	928,615
Total	**1,680,130**	**959,370**	**2,639,500**	**1,235,563**	**965,522**	**2,201,085**
Net	**(57)**	**175,584**	**175,527**	**119,605**	**48,832**	**168,437**

The Group's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. In the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, 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.

(Thousands of Georgian Lari)

18. Maturity Analysis of Financial Assets and Liabilities (continued)

The Group's principal sources of liquidity are as follows:

- deposits;
- borrowings from international credit institutions;
- inter-bank deposit agreement;
- debt issues;
- proceeds from sale of securities;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

As of 30 June 2010 deposits amounted to GEL 1,487,200 (2009: GEL 1,272,470) and represented 54% (2009: 55%) of Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As of 30 June 2010 amounts owed to other credit institutions amounted to GEL 1,152,300 (2009: GEL 928,615) and represented 42% (2009: 40%) of total liabilities.

In Management's opinion, liquidity is sufficient to meet the Group's present requirements.

19. Related Party Disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or 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.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances as of 30 June, and related expenses and income for the period are as follows:

	2010 (unaudited)			*2009 (unaudited)*		
	Parent	*Asso-ciates*	*Key management personnel*	*Parent*	*Asso-ciates*	*Key management personnel*
Loans outstanding at 1 January, gross	**–**	**9,255**	**5,791**	**265**	**21,644**	**5,572**
Loans issued during the six months	522	52	3,685	–	5,686	2,314
Loan repayments during the six months	–	(342)	(3,857)	(265)	(5,645)	(4,090)
Other movements	–	(6,958)	(1,057)	–	177	95
Loans outstanding at 30 June, gross	**522**	**2,007**	**4,562**	**–**	**21,862**	**3,891**
Less: allowance for impairment at 30 June	–	(876)	(126)	–	(3,729)	(51)
Loans outstanding at 30 June, net	**522**	**1,131**	**4,436**	**–**	**18,133**	**3,840**
Interest income on loans (six months)	–	41	305	–	627	233
Loan impairment charge (six months)	–	123	92	–	–	–
Deposits at 1 January	**12,098**	**506**	**6,919**	**12,733**	**177**	**18,324**
Deposits received during the six months	54,220	8,744	26,510	–	17,244	17,107
Deposits repaid during the six months	(44,664)	(8,795)	(24,118)	–	(17,491)	(30,815)
Other movements	(1,418)	168	(2,490)	–	151	270
Deposits at 30 June	**20,236**	**623**	**6,821**	**12,733**	**81**	**4,886**
Interest expense on deposits (six months)	677	46	149	–	1	158
Other income (six months)	437	–	49	299	–	3

(Thousands of Georgian Lari)

19. Related Party Disclosures (continued)

Compensation of key management personnel was comprised of the following:

	For the six months ended	
	30 June 2010 *(Unaudited)*	***30 June 2009*** *(unaudited)*
Salaries and other benefits	12,192	8,016
Share-based payments compensation	4,740	2,930
Social security costs	406	242
Total key management compensation	**17,338**	**11,188**

The number of key management personnel at 30 June 2010 was 158 (2009: 150).

20. Capital Adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank and the ratios established by the Basel Capital Accord 1988.

During six months ended 30 June 2010, the Bank and the Group had complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As of 30 June 2010 and 31 December 2009, the Bank's (standalone) capital adequacy ratio on this basis was as follows:

	30 June 2010 *(Unaudited)*	***31 December 2009***
Core capital	494,792	535,427
Supplementary capital	334,438	269,729
Less: Deductions from capital	(375,436)	(347,853)
Total regulatory capital	**453,794**	**457,303**
Risk-weighted assets	**3,128,468**	**2,717,084**
Total capital adequacy ratio	**14.5%**	**16.8%**

Regulatory capital consists of Core capital, which comprises share capital, additional paid-up capital, retained earnings including current year profit, foreign currency translation and non-controlling interests less accrued dividends, net long positions in own shares and goodwill. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG. The other component of regulatory capital is Supplementary capital, which includes subordinated long-term debt preference shares and revaluation reserves.

(Thousands of Georgian Lari)

20. Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on the interim consolidated statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 30 June 2010 and 31 December 2009, follows:

	30 June 2010 *(Unaudited)*	***31 December 2009***
Tier 1 capital	584,084	548,710
Tier 2 capital	428,543	369,480
Less: Deductions from capital	(70,542)	(67,454)
Total regulatory capital	**942,085**	**850,736**
Risk-weighted assets	**2,879,876**	**2,454,763**
Total capital ratio	32.7%	34.7%
Tier 1 capital ratio	20.3%	22.4%
Minimum capital adequacy ratio	**8%**	**8%**

21. Event after the Interim Reporting Date

Effective 8 July 2010 the Group sold its 19.99% share in Belarusky Narodny Bank to International Finance Corporation.