TBC BANK GROUP

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

30 June 2012

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REVIEW REPORT

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To the Shareholders and Management of JSC TBC Bank:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of JSC TBC Bank (the "Bank") and its subsidiaries (together the "Group") as at 30 June 2012 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and fair presentation of this condensed consolidated 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 condensed consolidated 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 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34.

PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch

20 August 2012
Tbilisi, Georgia

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In thousands of GEL	Note	30 June 2012 (Unaudited)	31 December 2011 (Audited)
ASSETS			
Cash and cash equivalents	5	258,695	374,153
Due from other banks	6	304,575	291,009
Loans and advances to customers	7	2,279,053	2,008,745
Investment securities available for sale		396,084	266,436
Investment securities held to maturity		20,591	28,956
Investments in finance leases		21,907	21,979
Investment properties		28,498	27,082
Goodwill	9	2,726	2,726
Intangible assets		12,783	10,064
Premises and equipment	8	180,116	163,879
Other financial assets		16,363	11,339
Other assets		94,296	93,653
TOTAL ASSETS		**3,615,687**	**3,300,021**
LIABILITIES			
Due to other banks	10	167,826	110,378
Customer accounts	11	2,090,084	1,999,256
Other borrowed funds	12	643,774	517,772
Current income tax liability		1,656	14,162
Deferred income tax liability	22	9,730	8,048
Provisions for liabilities and charges	13	10,062	8,434
Other financial liabilities		13,986	11,305
Other liabilities		20,036	19,405
Subordinated debt		139,982	142,480
TOTAL LIABILITIES		**3,097,136**	**2,831,240**
EQUITY			
Share capital	14	15,171	15,171
Share premium		203,308	203,308
Retained earnings		250,475	201,826
Share based payment reserve	15	6,950	6,180
Other reserves		32,152	33,162
Net assets attributable to the Bank's equity holders		**508,056**	**459,647**
Non-controlling interest		**10,495**	**9,134**
TOTAL EQUITY		**518,551**	**468,781**
TOTAL LIABILITIES AND EQUITY		**3,615,687**	**3,300,021**

Approved for issue and signed on behalf of the Board of Directors on 20 August 2012.

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

In thousands of GEL	Notes	30 June 2012 (Unaudited)	30 June 2011 (Unaudited)
Interest income	18	221,137	160,724
Interest expense	18	(103,366)	(64,135)
Net interest income		**117,771**	**96,589**
Provision for loan impairment	7	(18,642)	(3,919)
Net interest income after provision for loan impairment		**99,129**	**92,670**
Fee and commission income	19	26,300	18,834
Fee and commission expense	19	(8,240)	(7,160)
Gains less losses from trading in foreign currencies		13,247	17,446
Net losses from derivative financial instruments		(1,512)	(1,096)
Foreign exchange translation gains less losses /(losses less gains)		2,726	(6,605)
Impairment of investment securities available for sale		(10)	-
Provision for liabilities and charges		(1,628)	(1,288)
(Provision for) / recovery of impairment of investments in finance lease		(72)	287
Provision for impairment of other financial assets		(275)	(641)
Other operating income	20	9,305	5,580
Staff costs		(44,109)	(34,960)
Depreciation and amortisation		(8,739)	(7,025)
Administrative and other operating expenses	21	(31,019)	(19,734)
Profit before tax		**55,103**	**56,308**
Income tax expense	22	(6,211)	(8,467)
Profit for the period		**48,892**	**47,841**
Other comprehensive income:			
Revaluation of available-for-sale investments		(72)	237
Exchange differences on translation to presentation currency		(394)	(839)
Income tax recorded directly in other comprehensive income		(64)	(70)
Other comprehensive loss for the period		**(530)**	**(672)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**48,362**	**47,169**
Profit is attributable to:			
- Owners of the Bank		48,112	47,642
- Non-controlling interest		780	199
Profit for the period		**48,892**	**47,841**
Total comprehensive income is attributable to:			
- Owners of the Bank		47,582	46,970
- Non-controlling interest		780	199
Total comprehensive income for the period		**48,362**	**47,169**
Earnings per share for profit attributable to the owners of the Group:			
- Basic earnings per share	16	317.1	315.2
- Diluted earnings per share	16	316.6	313.0

In thousands of GEL	**Attributable to equity holders of the Bank**						**Non-controlling interest**	**Total equity**
	Share capital	**Share premium**	**Share based payment reserve**	**Other reserves**	**Retained earnings**	**Total**		
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 loss for the six months ended 30 June 2011	-	-	-	(672)	-	**(672)**	-	**(672)**
Total comprehensive income for the six months ended 30 June 2011	-	-	-	(672)	47,642	**46,970**	199	**47,169**
Dividends paid	-	-	-	-	(12,345)	**(12,345)**	-	**(12,345)**
Business combination	-	-	-	-	-	**-**	3,125	**3,125**
Balance at 30 June 2011 (Unaudited)	**15,113**	**201,723**	**-**	**31,141**	**158,720**	**406,697**	**8,524**	**415,221**
Balance at 1 January 2012	**15,171**	**203,308**	**6,180**	**33,162**	**201,826**	**459,647**	**9,134**	**468,781**
Profit for the six months ended 30 June 2012	-	-	-	-	48,112	**48,112**	780	**48,892**
Other comprehensive loss for the six months ended 30 June 2012	-	-	-	(530)	-	**(530)**	-	**(530)**
Total comprehensive income for the six months ended 30 June 2012	-	-	-	(530)	48,112	**47,582**	780	**48,362**
Equity contribution by non-controlling interest	-	-	-	-	-	**-**	581	**581**
Share based payment for the six months ended 30 June 2012	-	-	770	-	-	**770**	-	**770**
Transfer of revaluation surplus on premises to retained earnings	-	-	-	(480)	537	**57**	-	**57**
Balance at 30 June 2012 (Unaudited)	**15,171**	**203,308**	**6,950**	**32,152**	**250,475**	**508,056**	**10,495**	**518,551**

In thousands of GEL	Note	30 June 2012 (Unaudited)	30 June 2011 (Unaudited)
Cash flows from operating activities			
Interest received		196,490	158,300
Interest paid		(95,563)	(63,538)
Fees and commissions received		26,300	18,559
Fees and commissions paid		(8,240)	(7,160)
Income received from trading in foreign currencies		13,247	17,446
Other operating income received		7,848	5,856
Staff costs paid		(46,581)	(34,960)
Administrative and other operating expenses paid		(29,344)	(20,477)
Income tax (paid) / refunded		(17,036)	1,395
Cash flows from operating activities before changes in operating assets and liabilities		**47,121**	**75,421**
Changes in operating assets and liabilities			
Net increase in due from other banks		(12,329)	(158,293)
Net increase in loans and advances to customers		(315,008)	(334,095)
Net decrease/(increase) in investment in finance lease		72	(2,046)
Net increase in other financial assets		(5,097)	(2,885)
Net decrease in other assets		10,254	3,630
Net increase in due to other banks		56,921	74,738
Net increase in customer accounts		113,543	294,009
Net increase in other financial liabilities		2,682	683
Net increase in other liabilities		2,360	496
Net cash used in operating activities		**(99,481)**	**(48,342)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(476,281)	(396,972)
Proceeds from disposal of investment securities available for sale		356,151	357,403
Proceeds from redemption of investment securities held to maturity		8,365	-
Acquisition of premises, equipment and intangible assets		(27,682)	(4,136)
Proceeds from disposal of investment property		947	-
Inflow of cash and cash equivalents on acquisition		-	150
Net cash used in investing activities		**(138,500)**	**(43,555)**
Cash flows from financing activities			
Proceeds from other borrowed funds		300,208	180,382
Redemption of other borrowed funds		(170,998)	(117,199)
Redemption of subordinated debt		(6,847)	(10,559)
Dividends paid		**-**	(12,345)
Net cash from financing activities		**122,363**	**40,279**
Effect of exchange rate changes on cash and cash equivalents		**160**	**(254)**
Net decrease in cash and cash equivalents		**(115,458)**	**(51,872)**
Cash and cash equivalents at the beginning of the period	5	374,153	275,425
Cash and cash equivalents at the end of the period	5	**258,695**	**223,553**

1 Introduction

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” for the six months ended 30 June 2012 for TBC Bank (the “Bank”) and its subsidiaries (together referred to as the “Group” or “TBC Bank Group”).

This condensed consolidated 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 2012 and 31 December 2011, the shareholder structure by ownership interest is as follows:

Shareholders	30 June 2012 Ownership interest,%	31 December 2011 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 universal banking operations that include corporate, SME, retail and micro 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 (31 December 2011: 13) branches and 42 (31 December 2011: 37) service centres within Georgia. At 30 June 2012, the Bank had 2,633 employees (31 December 2011: 2,598).

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 condensed consolidated interim financial information includes the following principal subsidiaries:

Subsidiary	30 June 2012 Ownership interest,%	31 December 2011 Ownership interest,%	Country	Date of incorporation or acquisition	Industry
JSC TBC Leasing	89.53%	89.53%	Georgia	2003	Leasing
TBC Kredit LLC	75%	75%	Azerbaijan	2008	Non-banking credit institution
TBC Broker LLC	100%	100%	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%	100%	Israel	2011	PR and marketing
Bank Constanta JSC	83.54%	83.3%	Georgia	2011	Financial Institution
Banking System Service Company LLC	100%	100%	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. This condensed consolidated interim financial information is presented in thousands of Georgian Lari ("GEL thousands"), unless otherwise indicated.

2 Summary of Significant Accounting Policies

Basis of preparation. This condensed consolidated 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 2011, 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 condensed consolidated interim financial information as compared with the annual consolidated financial statements for the year ended 31 December 2011. Certain new standards, interpretations and amendments to the existing standards, as disclosed in the consolidated financial statements for the year ended 31 December 2011, became effective for the Group from 1 January 2012. These have not significantly affected the condensed consolidated 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 2012 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.6451 (31 December 2011: USD 1 = GEL 1.6703); EUR 1 = GEL 2.0704 (31 December 2011: EUR 1 = GEL 2.1614).

The Group adopted *Amendment to IFRS 7, Financial Instruments: Disclosures (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).* The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The management has determined that there are no significant transfers of financial assets that would require disclosure under the guidance given above.

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:

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.

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

A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 8,621 thousand (30 June 2011: GEL 7,917 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 2,122 thousand (30 June 2011: GEL 5,376 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 2012 the entity had investments in finance lease of GEL 21,907 thousand (31 December 2011: GEL 21,979 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 2012, investment properties comprised real estate assets located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 37,016 thousand (31 December 2011: GEL 37,979 thousand).

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 23.

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 2012 and 31 December 2011, there were no loans and advances at other than market conditions. Terms and conditions of related party balances are disclosed in Note 26.

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

4 New Accounting Pronouncements

Since the Group published its last annual financial statements, certain new standards and interpretations have been issued:

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, *Borrowing costs,* retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements. The Group is currently evaluating the impact of these amendments on its consolidated financial statements/interim financial information.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements/interim 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 2013.

5 Cash and Cash Equivalents

In thousands of GEL	**30 June 2012**	**31 December 2011**
Cash on hand	100,797	116,938
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	93,456	53,024
Correspondent accounts and overnight placements with other banks	31,455	128,552
Placements with and receivables from other banks with original maturities of less than three months	32,987	75,639
Total cash and cash equivalents	**258,695**	**374,153**

84% of correspondent accounts and overnight placements with other banks are placed with OECD banking institutions (31 December 2011: 96%).

As at 30 June 2012 GEL 27,311 thousand was placed on interbank time deposits with two non-OECD banks (31 December 2011: 28,903 thousand with 4 non-OECD banks).

6 Due from Other Banks

In thousands of GEL	**30 June 2012**	**31 December 2011**
Placements with other banks with original maturities of more than three months	31,594	40,942
Mandatory cash balances with the National Bank of Georgia	272,981	250,067
Total due from other banks	**304,575**	**291,009**

Mandatory cash balances with the National Bank of Georgia ("NBG") represents amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. Amounts due from other banks are not collateralised.

As at 30 June 2012 GEL 25,243 thousand was placed on interbank time deposits with one non-OECD bank (31 December 2011: 40,355 thousand with one non-OECD bank)

7 Loans and Advances to Customers

In thousands of GEL	**30 June 2012**	**31 December 2011**
Corporate loans	1,188,409	1,003,849
Consumer loans	405,635	381,512
Mortgage loans	379,811	371,867
Loans to small and medium enterprises	254,158	234,831
Micro loans	161,654	118,934
Others	61,809	56,412
Total loans and advances to customers (before impairment)	**2,451,476**	**2,167,405**
Less: Provision for loan impairment	(172,423)	(158,660)
Total loans and advances to customers	**2,279,053**	**2,008,745**

Included in the consumer loans are consumer loans, card loans, overdrafts, express and fast loans and other loans. Included in micro loans are all loans issued by Bank Constanta.

Movements in the provision for loan impairment during the six months ended 30 June 2012 are as follows:

In thousands of GEL	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Small and medium enterprises**	**Micro Loans**	**Total**
Provision for loan impairment at 1 January 2012	**114,106**	**25,794**	**12,376**	**5,574**	**810**	**158,660**
Provision for / (recovery of) impairment during the period	6,972	5,577	5,138	(596)	1,551	**18,642**
Amounts written off during the period as uncollectible	(8,480)	(5,851)	(57)	(812)	(490)	**(15,690)**
Recovery of amounts previously written off as uncollectible	5,396	3,486	1,108	513	308	**10,811**
Provision for loan impairment at 30 June 2012	**117,994**	**29,006**	**18,565**	**4,679**	**2,179**	**172,423**

7 Loans and Advances to Customers (Continued)

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

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Total
Provision for loan impairment at 1 January 2011	**116,440**	**24,527**	**15,924**	**10,563**	**167,454**
Provision for impairment during the year	9,827	(681)	(890)	(4,337)	**3,919**
Amounts written off during the year 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	**115,754**	**23,322**	**13,976**	**6,068**	**159,120**

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

	30 June 2012		**31 December 2011**	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individuals	883,688	36%	787,886	36%
Trade and services	400,300	16%	359,668	16%
Real estate	163,309	7%	148,633	7%
Consumer goods and automobile trading	138,014	6%	121,580	6%
Oil and gas	139,630	6%	120,420	6%
Energy	145,144	6%	105,890	5%
Food industry	106,558	4%	96,700	4%
Communication	93,132	4%	96,611	4%
Construction	147,061	6%	92,837	4%
Pawn shop	61,809	3%	56,412	3%
Agriculture	29,038	1%	56,104	3%
Transportation	55,442	2%	55,401	2%
Mining	28,517	1%	23,195	1%
Manufacturing	26,159	1%	12,020	1%
Other	33,675	1%	34,048	2%
Total loans and advances to customers (before impairment)	**2,451,476**	**100%**	**2,167,405**	**100%**

Included in concentration to individuals are micro loans disbursed to individual borrowers amounting to GEL 98,242 thousand (31 December 2011: GEL 32,688 thousand).

Trade and service sector contains loans disbursed to consumer service, healthcare, media and financial service industries.

Construction sector contains loans disbursed to the customers operating in the following industries: construction of buildings, architecture, building materials and fixtures and civil engineering.

At 30 June 2012, the Group had GEL 52,980 thousand (31 December 2011: GEL 42,542 thousand) disbursed to borrowers operating in civil engineering industry, out of which GEL 26,142 thousand (31 December 2011: nil) was disbursed to one borrower, who in turn had deposit placed in the Bank in the amount of GEL 26,628 thousand (31 December 2011: nil) (Note 11).

7 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 30 June 2012 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro Loans	Others	Total
Current and not impaired							
- Borrowers with credit history over two years	484,262	153,799	203,190	98,454	1,771	-	**941,476**
- New borrowers	593,660	218,247	153,416	141,997	157,387	61,809	**1,326,516**
Total current and not impaired	**1,077,922**	**372,046**	**356,606**	**240,451**	**159,158**	**61,809**	**2,267,992**
Past due but not impaired							
- 1 to 30 days overdue	2,794	12,253	10,073	3,005	1,024	-	**29,149**
- 30 to 90 days overdue	4,371	5,210	3,346	1,226	14	-	**14,167**
- 90 to 180 days overdue	311	-	-	-	-	-	**311**
Total past due but not impaired	**7,476**	**17,463**	**13,419**	**4,231**	**1,038**	**-**	**43,627**
Loans individually determined to be impaired (gross)							
- Not overdue	83,200	-	-	-	-	-	**83,200**
- 1 to 30 days overdue	6,406	-	-	-	-	-	**6,406**
- 30 to 90 days overdue	5,598	-	-	-	-	-	**5,598**
Total individually impaired loans	**95,204**	**-**	**-**	**-**	**-**	**-**	**95,204**
Other impaired loans							
- Not overdue	3,491	3,064	4,345	3,640	440	-	**14,980**
- 1 to 30 days overdue	351	462	625	465	126	-	**2,029**
- 30 to 90 days overdue	1,216	2,610	815	1,282	482		**6,405**
- 90 to 180 days overdue	2,749	6,776	2,616	3,139	410	-	**15,690**
- 180 to 360 days overdue	-	2,928	1,385	237	-	-	**4,550**
- Over 360 days overdue	-	286	-	713	-	-	**999**
Total other impaired loans	**7,807**	**16,126**	**9,786**	**9,476**	**1,458**	**-**	**44,653**
Total loans and advances to customers (before impairment)	**1,188,409**	**405,635**	**379,811**	**254,158**	**161,654**	**61,809**	**2,451,476**
Total provision	**(117,994)**	**(29,006)**	**(18,565)**	**(4,679)**	**(2,179)**	**-**	**(172,423)**
Total loans and advances to customers	**1,070,415**	**376,629**	**361,246**	**249,479**	**159,475**	**61,809**	**2,279,053**

7 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Current and not impaired							
- Borrowers with credit history over two years	383,614	135,658	195,190	85,933	2,099	-	**802,494**
- New borrowers	577,053	223,432	165,523	138,134	116,361	56,412	**1,276,915**
Total current and not impaired	**960,667**	**359,090**	**360,713**	**224,067**	**118,460**	**56,412**	**2,079,409**
Past due but not impaired							
- 1 to 30 days overdue	790	7,021	1,278	1,309	391	-	**10,789**
- 30 to 90 days overdue	12	3,498	1,055	487	83	-	**5,135**
Total past due but not impaired	**802**	**10,519**	**2,333**	**1,796**	**474**	**-**	**15,924**
Loans individually determined to be impaired (gross)							
- Not overdue	25,786	-	-	-	-	-	**25,786**
- 1 to 30 days overdue	5,586	-	-	-	-	-	**5,586**
- 90 to 180 days overdue	2,120	-	-	-	-	-	**2,120**
Total individually impaired loans	**33,492**	**-**	**-**	**-**	**-**	**-**	**33,492**
Other impaired loans							
- Not overdue	7,779	3,059	5,759	6,279	-	-	**22,876**
- 1 to 30 days overdue	-	354	317	191	-	-	**862**
- 30 to 90 days overdue	1,109	1,366	521	117	-	-	**3,113**
- 90 to 180 days overdue	-	5,137	1,790	1,967	-	-	**8,894**
- 180 to 360 days overdue	-	1,829	434	414	-	-	**2,677**
- Over 360 days overdue	-	158	-	-	-	-	**158**
Total other impaired loans	**8,888**	**11,903**	**8,821**	**8,968**	**-**	**-**	**38,580**
Total loans and advances to customers (before impairment)	**1,003,849**	**381,512**	**371,867**	**234,831**	**118,934**	**56,412**	**2,167,405**
Total provision	**(114,106)**	**(25,794)**	**(12,376)**	**(5,574)**	**(810)**	**-**	**(158,660)**
Total loans and advances to customers	**889,743**	**355,718**	**359,491**	**229,257**	**118,124**	**56,412**	**2,008,745**

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 end of reporting period.

The tables above show analysis of loan portfolio based on credit quality. The Group's policy for credit risk management purposes is to classify each loan as 'not impaired' until specific objective evidence of impairment of the loan is identified. The primary factors by which the Group considers a loan as impaired are: overdue status of loan, financial position of a borrower and fair value of related collateral. The Group conducts impairment analysis of each individual loan on a quarterly basis.

7 Loans and Advances to Customers (Continued)

Past due but not impaired loans include overdue loans from 'Standard' and 'Watch' credit risk category. Where 'Standard' is defined as loans extended to borrowers with good financial standing and good track record for repayments and 'Watch' is defined as adequately secured loans, for which the Bank identifies the probability of worsening the borrowers' financial standing.

Loans individually determined to be impaired include all loans for which amount of IFRS impairment provision was assessed individually and, at the same time, such loans do not fall in Standard and Watch categories.

The overdue amounts reported throughout the table represent the total balance of loans, not only the particular instalment (s) that is overdue.

The presentation of the credit quality of loans in the condensed consolidated interim financial information for the six month ended 30 June 2011 differs from the presentation in the current condensed consolidated financial information due to change in the credit quality presentation described above.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are the following:

- real estate properties,
- inventory and equipment,
- cash covers,
- third party guarantees.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 30 June 2012:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	867,787	2,477,865	320,622	128,955
Consumer loans	246,189	633,896	159,446	6,375
Mortgage loans	363,131	965,598	16,680	5,699
Loans to small and medium enterprises	241,782	725,494	12,376	3,789
Micro loans	54,215	130,130	107,439	3,416
Others	61,809	61,809		
Total	**1,834,913**	**4,994,792**	**616,563**	**148,234**

The effect of collateral at 31 December 2011:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	775,932	3,219,868	227,917	111,416
Consumer loans	212,443	585,829	169,069	4,417
Mortgage loans	356,625	926,611	15,242	5,452
Loans to small and medium enterprises	223,090	765,597	11,741	4,202
Micro loans	42,795	112,656	76,139	1,476
Others	56,412	56,399	-	-
Total	**1,667,297**	**5,666,960**	**500,108**	**126,963**

The effect of collateral is determined by comparison of fair value of collateral to gross loans and advances outstanding at the reporting date.

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

8 Premises and Equipment

Depreciation and amortisation charge presented on the face of the condensed consolidated interim statement of comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises. As at 30 June 2012 construction in progress amounted to GEL 32,790 thousand.

Premises have been revalued to market value at 30 September 2011. The valuation was carried out by an independent firm of valuers which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was discounted cash flow, integrated cost estimation and sales comparison method. Fair values were estimated using appropriate valuation techniques, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifics of the estimated property.

Management considers that the fair value has not changed significantly between 30 September 2011 and 30 June 2012.

The Group acquired new property amounting to GEL 23,316 thousand and disposed of property amounting to GEL 5,517 thousand during the six month period ended 30 June 2012.

9 Goodwill

In thousands of GEL	**2012**	**2011**
Carrying amount at 1 January	**2,726**	**1,262**
Addition from acquisition of subsidiary	-	769
Carrying amount at 30 June	**2,726**	**2,031**

No impairment indicators were identified as at 30 June 2012 or 30 June 2011.

10 Due to Other Banks

In thousands of GEL	**30 June 2012**	**31 December 2011**
Correspondent accounts and overnight placements of other banks	32,300	15,003
Term placements of banks and financial institutions	125,819	89,470
Short-term loans from banks	9,707	5,905
Total due to other banks	**167,826**	**110,378**

11 Customer Accounts

In thousands of GEL	**30 June 2012**	**31 December 2011**
State and public organisations		
- Current/settlement accounts	64,571	92,367
- Term deposits	129,273	7,448
Other legal entities		
- Current/settlement accounts	469,756	517,684
- Term deposits	233,978	282,875
Individuals		
- Current/demand accounts	391,309	354,582
- Term deposits	801,197	744,300
Total customer accounts	**2,090,084**	**1,999,256**

State and public organisations include government owned profit oriented businesses.

Economic sector concentrations within customer accounts are as follows:

	30 June 2012		**31 December 2011**	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individuals	1,192,506	57%	1,098,882	55%
Trade and services	216,903	11%	254,717	13%
Transport and communication	113,302	5%	164,485	8%
Construction	103,359	5%	140,148	7%
Government	33,588	2%	61,079	3%
Energy	166,976	8%	27,410	1%
Mining and natural resource processing	71,064	3%	8,710	1%
Agriculture	5,512	0%	1,288	0%
Other	186,874	9%	242,537	12%
Total customer accounts	**2,090,084**	**100%**	**1,999,256**	**100%**

Construction sector contains amounts placed by the customers operating in the following industries: construction of buildings, architecture, building materials and fixtures, civil engineering.

At 30 June 2012, the Group had a deposit placed by the customer operating in civil engineering industry, amounting to GEL 26,628 thousand (31 December 2011: nil). The deposit was a security for loan disbursed by the Group, refer to note 7.

12 Other Borrowed Funds

At 30 June 2012, other borrowed funds comprised the following:

In thousands of GEL	**Outstanding amount in original currency**			**Outstanding amount in GEL**
	GEL	**USD**	**EUR**	
International financial institutions	12,195	86,590	37	154,722
Local banks and financial institutions	141,526	1,502	-	143,997
Foreign banks and financial institutions	3,280	203,282	449	338,630
Other financial institutions	-	743	2,513	6,425
Total	**157,001**	**292,117**	**2,999**	**643,774**

As at 30 June 2012, investment securities available for sale amounting to GEL 147,600 thousand have been pledged to local banks as collateral with respect to other borrowed funds (31 December 2011: nil).

12 Other Borrowed Funds (Continued)

Subsequent to 30 June 2012, borrowed funds from local banks and financial institutions in the amount of GEL 141,526 were fully repaid.

At 31 December 2011, other borrowed funds comprised the following:

In thousands of GEL	**Outstanding amount in original currency**			**Outstanding amount in GEL**
	GEL	**USD**	**EUR**	
International financial institutions	12,245	89,715	2,411	167,306
Foreign banks and financial institutions	5,941	203,145	206	345,700
Other financial institutions	-	743	1,631	4,766
Total	**18,186**	**293,603**	**4,248**	**517,772**

13 Provisions for Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

In thousands of GEL	**Credit related commitments**	**Other**	**Total**
Carrying amount at 1 January 2011	**5,781**	**1,100**	**6,881**
Additions recorded in profit or loss	1,288	-	1,288
Carrying amount at 30 June 2011	**7,069**	**1,100**	**8,169**
Carrying amount at 1 January 2012	**7,134**	**1,300**	**8,434**
Additions recorded in profit or loss	1,628	**-**	**1,628**
Carrying amount at 30 June 2012	**8,762**	**1,300**	**10,062**

Credit related commitments: Specific provision was created against losses incurred on financial guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

Provisions for liabilities and charges are expected to be fully utilised within twelve months after 30 June 2012.

14 Share Capital

In thousands of GEL except for number of shares	**Number of outstanding shares**	**Ordinary shares**	**Share premium**	**Total**
At 1 January 2011	**151,131**	**15,113**	**201,723**	**216,836**
New shares issued	579	58	1,585	**1,643**
At 31 December 2011	**151,710**	**15,171**	**203,308**	**218,479**
At 30 June 2012	**151,710**	**15,171**	**203,308**	**218,479**

14 Share Capital (Continued)

The total authorised number of ordinary shares is 151,710 shares (31 December 2011: 151,710 shares). All issued ordinary shares are fully paid.

All ordinary shares have a nominal value of GEL 100 per share (31 December 2011: 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.

At the reporting date the entity also has 2,450 shares reserved for issuance under share based payment arrangement (31 December 2011: 2,718 shares). For share based payments refer to Note 15.

During the six months ended 30 June 2012 the Group did not declare dividends. In May 2011 the Group declared dividends of GEL 82.7 per share.

15 Share Based Payments

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 at the reporting date. The fair value of the share options as at the grant date was estimated at GEL 2,837 per share option. The valuation was carried out by an external valuator.

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.

Share options are subject to 2 year vesting period. Management expenses granted share options over the vesting period within staff costs.

In GEL except for number of share options	**30 June 2012**	**30 June 2011**
Cumulative number of options outstanding as at the beginning of the period	**2,179**	**-**
Number of options granted during the period	271	741
Number of options exercised	-	-
Cumulative number of options outstanding at the end of the period	**2,450**	**741**
Value at grant date per share option (GEL)	2,837	2,837
Expense recognised as staff cost during the period (GEL thousand)	**983**	**-**

As at 30 June 2012, number of options exercisable was 1,564 shares (30 June 2011: 579 shares).

Increase in equity on granted but unexercised shares resulting from the scheme enacted in May 2011 is accounted for under share based payment reserve which is equal to cumulative number of options outstanding at the end of the year multiplied by value as at grant date.

16 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.

In thousands of GEL except for number of shares	30 June 2012	30 June 2011
Profit for the period attributable to the owners of the Bank	48,112	47,642
Weighted average number of ordinary shares in issue	151,710	151,131
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**317.1**	**315.2**

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:

In thousands of GEL except for number of shares	30 June 2012	30 June 2011
Profit for the period attributable to the owners of the Bank	48,112	47,642
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	151,981	152,231
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**316.6**	**313.0**

17 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 150,000 and USD 1,500,000 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.

The reportable segments are the same as the operating segments.

The vast majority of the entity's revenues are attributable to Georgia.

17 Segment Information (Continued)

Segment information for the reportable segments of the Group for the six month periods ended 30 June 2012 and 2011 is set out below:

In thousands of GEL	Retail	Corporate	SME	Micro	Total
Six months ended 30 June 2012					
External revenues:					
- Interest income on loans and advances to customers	85,066	72,762	17,717	23,421	**198,966**
- Fee and commission income	14,882	7,131	3,523	764	**26,300**
- Gains less losses from trading in foreign currencies	3,250	7,334	3,707	348	**14,639**
Revenue from external customers	**103,198**	**87,227**	**24,947**	**24,533**	**239,905**
Six months ended 30 June 2012					
External Expenses:					
- Interest expense on customer accounts	43,124	26,506	2,696	1,319	**73,645**
- Fee and commission expense	5,569	147	265	144	**6,125**
- Provision for loan impairment	10,715	6,972	(596)	1,551	**18,642**
Expenses from external customers	**59,408**	**33,625**	**2,365**	**3,014**	**98,412**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**43,790**	**53,602**	**22,582**	**21,519**	**141,493**
30 June 2012					
Total gross loans and advances to customers reported	847,255	1,188,409	254,158	161,654	**2,451,476**
Total customer accounts reported	1,166,633	633,695	249,201	40,555	**2,090,084**
Total guarantees issued	2,017	245,504	31,010	181	**278,712**

17 Segment Information (Continued)

In thousands of GEL	Retail	Corporate	SME	Micro	Total
Six months ended 30 June 2011					
External revenues:					
- Interest income on loans and advances to customers	71,281	55,980	13,170	3,949	**144,380**
- Fee and commission income	10,189	5,961	2,512	172	**18,834**
- Gains less losses from trading in foreign currencies	3,031	5,310	2,586	64	**10,991**
Revenue from external customers	**84,501**	**67,251**	**18,268**	**4,185**	**174,205**
Six months ended 30 June 2011					
External Expenses:					
- Interest expense on customer accounts	31,706	11,292	1,402	70	**44,470**
- Fee and commission expense	4,115	479	201	25	**4,820**
- Provision for loan impairment	4,873	2,545	(3,114)	(385)	**3,919**
Expenses from external customers	**40,694**	**14,316**	**(1,511)**	**(290)**	**53,209**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**43,807**	**52,935**	**19,779**	**4,475**	**120,996**
30 June 2011					
Total gross loans and advances to customers reported	687,129	918,459	176,139	86,365	**1,868,092**
Total customer accounts reported	944,763	505,891	161,899	7,084	**1,619,637**
Total guarantees issued	2,518	206,152	23,210	-	**231,880**

17 Segment Information (Continued)

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

In thousands of GEL	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**141,493**	**120,996**
Non-segmental interest income	22,171	16,344
Non-segmental interest expense	(29,721)	(19,665)
Non-segmental net fee and commission expense	(2,115)	(2,340)
Non-segmental(losses less gains) / gains less losses from trading in foreign currency	(1,392)	6,455
Net losses from derivative financial instruments	(1,512)	(1,096)
Foreign exchange translation gains less losses / (losses less gains)	2,726	(6,605)
Impairment of investment securities available for sale	(10)	-
Provision for liabilities and charges	(1,628)	(1,288)
(Provision for) / recovery of impairment of investments in finance lease	(72)	287
Provision for impairment of other financial assets	(275)	(641)
Other operating income	9,305	5,580
Staff costs	(44,109)	(34,960)
Depreciation and amortisation	(8,739)	(7,025)
Administrative and other operating expenses	(31,019)	(19,734)
Profit before income tax from continuing operations	**55,103**	**56,308**

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

In thousands of GEL	**30 June 2012**	**31 December 2011**
Total segment assets (loans and advances to customers)	2,279,053	2,008,745
Cash and cash equivalents	258,695	374,153
Due from other banks	304,575	291,009
Investment securities available for sale	396,084	266,436
Investment securities held to maturity	20,591	28,956
Other financial assets	16,363	11,339
Investments in finance leases	21,907	21,979
Other assets	94,296	93,653
Premises and equipment	180,116	163,879
Intangible assets	12,783	10,064
Investment properties	28,498	27,082
Goodwill	2,726	2,726
Total assets per statement of financial position	**3,615,687**	**3,300,021**

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

In thousands of GEL	**30 June 2012**	**31 December 2011**
Total segment liabilities (customer accounts)	2,090,084	1,999,256
Due to other banks	167,826	110,378
Other borrowed funds	643,774	517,772
Current income tax liability	1,656	14,162
Deferred income tax liability	9,730	8,048
Provisions for liabilities and charges	10,062	8,434
Other financial liabilities	13,986	11,305
Other liabilities	20,036	19,405
Subordinated debt	139,982	142,480
Total liabilities per statement of financial position	**3,097,136**	**2,831,240**

18 Interest Income and Expense

In thousands of GEL	30 June 2012	30 June 2011
Interest income		
Loans and advances to customers	198,966	144,380
Investment securities available for sale	12,796	10,885
Due from other banks	4,949	2,114
Investments in leases	2,771	1,408
Investment securities held to maturity	1,502	1,792
Other	153	145
Total interest income	**221,137**	**160,724**
Interest expense		
Due to other banks	3,148	1,581
Customer accounts	73,645	44,470
Other borrowed funds	19,629	10,835
Subordinated debt	6,944	7,249
Total interest expense	**103,366**	**64,135**
Net interest income	**117,771**	**96,589**

19 Fee and Commission Income and Expense

In thousands of GEL	30 June 2012	30 June 2011
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Plastic card operations	11,982	7,754
- Settlement transactions	4,668	3,380
- Guarantees issued	4,557	3,956
- Cash transactions	1,862	1,956
- Issuance of letters of credit	1,154	275
- Foreign exchange operations	673	625
- Other	1,404	888
Total fee and commission income	**26,300**	**18,834**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Plastic card operations	3,981	2,654
- Guarantees received	2,031	2,725
- Cash transactions	419	236
- Settlement transactions	418	635
- Foreign exchange operations	16	27
- Other	1,375	883
Total fee and commission expense	**8,240**	**7,160**
Net fee and commission income	**18,060**	**11,674**

20 Other Operating Income

In thousands of GEL	**30 June 2012**	**30 June 2011**
Gain from sale of inventory	2,682	538
Revenues from sales of pay-box terminals	2,069	1,610
Revenues from operational leasing	1,824	1,386
Administrative fee income from international financial institutions	600	400
Net gain on terminated finance lease contracts	2	224
Gains on disposal of premises and equipment	-	27
Other	2,128	1,395
Total other operating income	**9,305**	**5,580**

21 Administrative and Other Operating Expenses

In thousands of GEL	**30 June 2012**	**30 June 2011**
Occupancy and rent	5,201	3,961
Advertising and marketing services	5,127	3,205
Professional services	4,234	2,922
Taxes other than on income	1,782	947
Communications and supply	1,460	1,178
Stationery and other office expenses	1,380	730
Utilities services	1,376	1,120
Loss on disposal of premises and equipment	1,559	-
Premises and equipment maintenance	935	540
Intangible asset maintenance	910	731
Transportation and vehicle maintenance	895	615
Security services	729	618
Insurance	721	619
Charity	540	557
Business trip expenses	461	387
Losses on initial recognition of assets at rates above/below market	436	-
Personnel training and recruitment	283	157
Other	2,990	1,447
Total administrative and other operating expenses	**31,019**	**19,734**

22 Income Taxes

As at 30 June 2012, the income tax rate applicable to the majority of the Group's income is 15% (30 June 2011: 15%). The income tax rate applicable to the majority of subsidiaries income ranges from 15% to 20% (30 June 2011: 15-20%). Interim period income tax expense is recognized based on income tax rate relevant as of the reporting date and expected for the full financial year.

23 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 Azerbaijani 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 30 June 2012 and 31 December 2011 and no provision for potential tax liabilities has been recorded.

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

In thousands of GEL	**30 June 2012**	**31 December 2011**
Not later than 1 year	389	395
Later than 1 year and not later than 5 years	126	95
Later than 5 years	165	167
Total operating lease commitments	**680**	**657**

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 30 June 2012 and 31 December 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.

23 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:

In thousands of GEL	Note	30 June 2012	31 December 2011
Guarantees issued		278,712	322,263
Undrawn credit lines		232,429	199,054
Letters of credit		85,063	66,091
Total credit related commitments (before provision)		**596,204**	**587,408**
Less: Provision for credit related commitments	13	(8,762)	(7,134)
Total credit related commitments		**587,442**	**580,274**

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. Binding undrawn credit lines as at 30 June 2012 composed GEL 110,167 thousand (31 December 2011: GEL 101,301 thousand). Fair value of credit related commitments was GEL 8,762 thousand at 30 June 2012 (31 December 2011: GEL 7,134 thousand).

24 Financial Risk Management

The risk management function within the Group is carried out in respect of the following risks: credit, geographical, market which includes currency and interest rate risks, liquidity, operational and legal risks. The primary objectives of the risk management function are to (i) Contribute to the development of the Bank's business strategy by ensuring risk adjusted profitability and (ii) Guarantee the Bank's sustainable development through the implementation of an efficient systems for the risk analysis, measurement and monitoring.

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 23.

The Group's credit risk management strategy includes: (i) Risk tolerance according to significant concentrations such as: segments, industries, products, client groups and non secured loans, (ii) The analysis of the credit market and Credit policy and (iii) Target market within each segment, products and pricing.

Loan Approval Committees are responsible to review credit applications and approve credit products. There are three different Loan Approval Committees that within the established loan approval limits, review and approve corporate, SME and retail loans. All of them are centralized at the Bank's Head Office. Loan Approval Committee consists of at least two persons with sufficient credit experience, votes in relation to the approval of a loan are divided equally between Sales and Risk Management Departments, Corporate Loans are in addition reviewed by the Credit Risk Management Department prior to presentation to Loan Approval Committee.

24 Financial Risk Management (Continued)

The Group has established portfolio monitoring systems in order to manage its credit exposure effectively. Reports are generated on a daily, weekly, monthly and quarterly basis in order to monitor the dynamics of loan portfolio of the Bank's business segments.

The Credit Risk Management Department analyses trends of the portfolio on a monthly basis, including total credit portfolio exposure, concentrations, maturities, volumes and performance of non-performing loans, write-offs and recoveries, and presents its findings to the Management Board. Furthermore, reports relating to the credit quality of the credit portfolio are presented to the Supervisory Board on a quarterly basis. The Group's credit risk management 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.

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

Primary factor when assessing credit risk of counterparty is fair value of collateral thereoff. Management also considers other factors namely, profitability of operations, business plans and credit history.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate, both 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 Currency risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain such positions within 20% of the Bank's regulatory capital. As at 30 June 2012, the Bank maintained a balance sheet open currency position of 2.99% of regulatory capital and an aggregate open currency position of 4.43% of regulatory capital. The ALCO has set limits on the level of exposure by currency as well as on aggregate exposure for both overnight and intra-day positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

	At 30 June 2012				**At 31 December 2011**			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	1,063,783	813,979	9,088	**258,892**	829,932	616,346	8,406	**221,992**
US Dollars	2,020,334	1,989,731	(61,370)	**(30,767)**	1,861,326	1,826,247	(53,967)	**(18,888)**
Euros	186,737	236,986	46,170	**(4,079)**	244,902	258,868	13,617	**(349)**
Other	26,414	14,956	7,703	**19,161**	66,457	79,730	32,109	**18,836**
Total	**3,297,268**	**3,055,652**	**1,591**	**243,207**	**3,002,617**	**2,781,191**	**165**	**221,591**

24 Financial Risk Management (Continued)

The above provided quantitative disclosure of the Group's currency risk is based on information provided internally to the management. For analyses of currency risk management assumes that provision for impairment of loans and advances to customers is assumed to be entirely attributable to loans and advances to customers denominated in GEL.

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 2012, VAR amounted to GEL 748 (31 December 2011: GEL 482).

Interest rate risk. Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of the financial assets and liabilities of the Bank. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities. The loans and deposits offered by the Bank are at fixed interest rates, while a portion of the Bank's borrowings is based on a floating rate of interest. The Bank has also entered into interest rate swap agreements in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. Management also believes that the Bank's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movement.

Interest rate risk is managed within the limit framework as established in accordance with the standards set by the Group. The Bank's interest rate gap is prepared and analysed by the Financial Risk Management Department. Scenario analysis is also conducted on a quarterly basis in order to assess interest rate earnings and the economic value sensitivity of the Bank, as well as to monitor compliance with the interest rate gap and other limits set by Asset and Liability Management Committee.

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 re-pricing or maturity dates.

In thousands of GEL	**Less than 1 year**	**More than 1 year**	**Total**
30 June 2012			
Total financial assets	1,731,931	1,565,337	**3,297,268**
Total financial liabilities	2,059,289	996,363	**3,055,652**
Net interest sensitivity gap at 30 June 2012	**(327,358)**	**568,974**	**241,616**
31 December 2011			
Total financial assets	1,580,289	1,422,328	**3,002,617**
Total financial liabilities	1,896,863	884,328	**2,781,191**
Net interest sensitivity gap at 31 December 2011	**(316,574)**	**538,000**	**221,426**

During 2011 and six month ended 30 June 2012 sensitivity analysis did not reveal significant potential effect on the Group Equity.

24 Financial Risk Management (Continued)

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: Qualified Liquid Assets + Total Inflow/Total Outflow
- To assess the level of mismatch on net cumulative bases
- To control level of net mismatches via Prudential Limits

Critical Limits are set for the following time bands: 0-8 days, 9-30 days and 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 NBG. The limit is defined by NBG for average liquidity ratio calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions with residual maturity up to 6 months and off-balance sheet liabilities up to 6 months; The ratio was 31.99% at 30 June 2012 (2011: 33.54%), well above the prudential limit set by NBG.

24 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 acceptable level for the liquidity ratio and concentration limits such as deposit to total obligations and large depositor concentration ratio as well as other ratios are set by the Asset/Liability Management Committee (ALCO) 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 2012 based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to other banks	120,638	3,127	47,705	-	**171,470**
Customer accounts – individuals	601,554	474,357	172,158	7,976	**1,256,045**
Customer accounts – legal	624,474	100,203	202,082	15,788	**942,547**
Other financial liabilities	12,968	897	121	-	**13,986**
Other borrowed funds	182,090	243,727	241,474	52,863	**720,154**
Subordinated debt	18,703	27,795	89,918	58,413	**194,829**
Gross settled forwards	87,210	-	-	-	**87,210**
Financial guarantees	81,378	156,228	92,205	44,723	**374,534**
Other credit related commitments	232,429	-	-	-	**232,429**
Total potential future payments for financial obligations	**1,961,444**	**1,006,334**	**845,663**	**179,763**	**3,993,204**

The maturity analysis of financial liabilities at 31 December 2011 was as follows:

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to other banks	58,694	57,739	-	-	**116,433**
Customer accounts – individuals	528,762	457,578	166,794	6,737	**1,159,871**
Customer accounts – legal	677,435	76,376	167,640	5,675	**927,126**
Other financial liabilities	6,582	1,382	3,414	358	**11,736**
Other borrowed funds	138,899	168,262	225,539	64,497	**597,197**
Subordinated debt	19,318	21,870	109,269	59,874	**210,331**
Gross settled forwards	61,964	-	-	-	**61,964**
Financial guarantees	99,894	171,318	81,086	48,040	**400,338**
Other credit related commitments	199,054	-	-	-	**199,054**
Total potential future payments for financial obligations	**1,790,602**	**954,525**	**753,742**	**185,181**	**3,684,050**

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 three months in the tables above.

24 Financial Risk Management (Continued)

Term Deposits included in customer accounts are classified based on contractual maturities, although, in accordance with the Georgian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest and the Group is obliged to repay such deposits upon demand of a depositor. In line with historical experience, however, Management expects that many customers will not require repayment on the earliest possible date and, accordingly, the table does not reflect Management's expectations as to actual cash flows indicated by the Bank's deposit retention history.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

The expected gap may be summarised as follows at 30 June 2012:

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**Over 1 year**	**Total**
Assets				
Cash and cash equivalents	258,695	-	-	**258,695**
Due from other banks	304,410	165	-	**304,575**
Loans and advances to customers	451,601	549,518	1,277,934	**2,279,053**
Investment securities available for sale	396,084	-	-	**396,084**
Investment securities held to maturity	7,297	13,294	-	**20,591**
Finance lease receivables	3,422	7,615	10,870	**21,907**
Other financial assets	14,915	775	673	**16,363**
Total financial assets	**1,436,424**	**571,367**	**1,289,477**	**3,297,268**
Liabilities				
Due to other banks	120,428	3,127	44,271	**167,826**
Customer accounts	261,260	73,153	1,755,671	**2,090,084**
Other borrowed funds	173,581	225,220	244,973	**643,774**
Other financial liabilities	12,968	897	121	**13,986**
Subordinated debt	16,759	17,937	105,286	**139,982**
Total financial liabilities	**584,996**	**320,334**	**2,150,322**	**3,055,652**
Credit related commitments				
Financial guarantees	8,762	**-**	**-**	**8,762**
Other credit related commitments	29,745	**-**	**-**	**29,745**
Total credit related commitments	**38,507**	**-**	**-**	**38,507**
Net liquidity gap at 30 June 2012	**812,921**	**251,033**	**(860,845)**	**203,109**
Cumulative gap at 30 June 2012	**812,921**	**1,063,954**	**203,109**	

Management believes that the Bank has sufficient liquidity to meet its current on- and off-balance sheet obligations.

24 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2011:

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**Over 1 year**	**Total**
Assets				
Cash and cash equivalents	374,153	-	-	**374,153**
Due from other banks	250,836	40,173	-	**291,009**
Loans and advances to customers	351,624	468,693	1,188,428	**2,008,745**
Investment securities available for sale	266,436	-	-	**266,436**
Investment securities held to maturity	8,833	20,123	-	**28,956**
Finance lease receivables	3,315	6,534	12,130	**21,979**
Other financial assets	5,559	2,575	3,205	**11,339**
Total financial assets	**1,260,756**	**538,098**	**1,203,763**	**3,002,617**
Liabilities				
Due to other banks	54,243	56,135	-	**110,378**
Customer accounts	253,706	69,822	1,675,728	**1,999,256**
Other borrowed funds	132,057	150,970	234,745	**517,772**
Other financial liabilities	6,153	1,380	3,772	**11,305**
Subordinated debt	18,122	9,664	114,694	**142,480**
Total financial liabilities	**464,281**	**287,971**	**2,028,939**	**2,781,191**
Credit related commitments				
Financial guarantees	7,134	-	-	7,134
Other credit related commitments	27,351	-	-	27,351
Total credit related commitments	**34,485**	-	-	**34,485**
Net liquidity gap at 31 December 2011	**761,990**	**250,127**	**(825,176)**	**186,941**
Cumulative gap at 31 December 2011	**761,990**	**1,012,117**	**186,941**	

In order to assess the possible outflow of the bank's customer accounts management applied value at risk analysis. The statistical data was used on the basis of a holding period of one month for a look-back period of three years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: (0-3 months) and (0-12 months), based on which the maximum percentage of deposits' outflow was calculated

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.

25 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 and (iii) to comply with financial covenants stipulated by borrowing agreements. Compliance with capital adequacy ratios set by NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's General Director and Chief Accountant.

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

In thousands of GEL	**30 June 2012**	**31 December 2011**
Share capital	224,659	224,659
Retained earnings and other disclosed reserves	257,830	222,985
General loan loss provisions (up to 1.25 % of risk – weighted assets)	46,003	42,172
Less intangible assets	(8,669)	(6,380)
Less Investments into subsidiary companies and capital of other banks	(73,348)	(70,764)
Subordinated debt (included in regulatory capital)	82,474	79,239
Total regulatory capital	**528,949**	**491,911**

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

In thousands of GEL	**30 June 2012**	**31 December 2011**
Tier 1 capital		
Share capital	218,479	218,479
Retained earnings and disclosed reserves	257,424	207,454
Less: Goodwill	(2,726)	(2,726)
Non-controlling interest	10,495	9,134
Total tier 1 capital	**483,672**	**432,341**
Tier 2 capital		
Revaluation reserves	32,153	33,162
General reserve	34,145	31,841
Subordinated debt (included in tier 2 capital)	82,474	79,239
Total tier 2 capital	**148,772**	**144,242**
Total capital	**632,444**	**576,583**

Following Basel I guidelines general reserve is defined by the management as the minimum between the following:

a) IFRS provisions created on loans without impairment trigger event

b) 2% of loans without impairment trigger event

and is capped at 1.25% of total RWA (Risk Weighted Assets)

The Bank has complied with all externally imposed capital requirements throughout 2011 and six month ended 30 June 2012.

26 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 2012, the outstanding balances with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)	13,902	2,035	13,864
Impairment provisions for loans and advances to customers	(228)	(23)	(267)
Derivative financial liability	5,686	-	-
Other borrowed funds	154,722	-	-
Customer accounts (contractual interest rate: 0 - 13 %)	4,969	4,398	4,496
Subordinated debt (contractual interest rate: 5 - 11.3 %)	61,013	-	-

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 2012 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Interest income	849	136	647
Interest expense	195	187	218
Provision for loan impairment	-	-	(26)
Gains less losses from trading in foreign currencies	8	3	367
Fee and commission income	4	2	160
Salaries	985	6,458	-
Administrative and other operating expenses	8	76	83

At 30 June 2012, other rights and obligations with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Guarantees issued by the Group at the six month end	-	-	6,720

Aggregate amounts of loans advanced to and repaid by related parties during the six months ended 30 June 2012 were:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Other related parties**
Amounts advanced to related parties during the six month ended (including accrual of interest)	632	333	11,639
Amounts repaid by related parties during the six month ended	(2,099)	(706)	(6,083)

26 Related Party Transactions (Continued)

At 31 December 2011, the outstanding balances with related parties were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13 - 26 %)		14,711	3,129	6,933
Impairment provisions for loans and advances to customers		(213)	(35)	(262)
Derivative financial liability		5,152	-	-
Other borrowed funds		106,941	-	-
Customer accounts (contractual interest rate: 0 - 13 %)		3,899	5,207	13,204
Subordinated debt (contractual interest rate: 5 - 11.3 %)		62,325	-	-

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

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Interest income		404	119	411
Interest expense		225	168	14
Recovery for loan impairment		-	-	292
Gains less losses from trading in foreign currencies		44	-	314
Fee and commission income		14	5	141
Salaries		984	1,372	-
Administrative and other operating expenses		11	206	-

At 31 December 2011, other rights and obligations with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Guarantees issued by the Group at the six month ended	-	-	7,049

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

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

Compensation of the key management personnel and supervisory board members is presented below:

	Six months ended 30 June 2012		Six months ended 30 June 2011	
In thousands of GEL	Expense	Accrued liability	Expense	Accrued liability
Salaries and cash settled bonuses	6,459	4,608	2,356	4,957
Equity-settled share-based compensation	983	-	-	-
Total	**7,442**	**9,322**	**2,356**	**4,957**

27 Events after the End of the Reporting Period

After the end of the reporting period, the Group has received long-term loans from international financial institutions amounting to USD 16,952 thousand, EUR 26 thousand and a short-term loans amounting to USD 1,279 thousand. For repayment of received loans refer to note 12.